MARKETING AND ADVERTISING

An Economic Appraisal

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To My Mother

FOREWORD

THE typical treatise on marketing and advertising takes the individualistic point of view. It presents the methods and policies and the practices and schemes by which goods pass from the producer to the consumer. Its purpose is pecuniary—to show the advantages and disadvantages of this and that part of the system of marketing and thus to indicate the means of making more money in business. In some instances, notably when advertising is under consideration, an acquisitive spirit of the crudest sort manifests itself, as shown particularly in the explanation of the psychological appeals and related technique by which the prospective purchaser may become the victim of the seller. Very rarely do the writers make any distinction between the production and the distribution of wealth as those terms are used in economics, and they give little or no attention to the increasing proportion of the consumer's dollar which goes to marketing expense.

The writing of this book springs from the desire to rectify these shortcomings. Its aim is to ap-

praise marketing and advertising from the social or public standpoint; the individualistic or pecuniary point of view does not suffice because it often conflicts with public welfare.

Acquisitive practices, no matter how remunerative in dollars, should be exposed and condemned. The differentiation of production and distribution, in the economic sense, is essential in any analysis of the problem. With these principles and distinctions in mind, the writer attempts to present the causes of the advancing cost of marketing and to indicate the possibilities of improvement.

The lecture notes on which this book is based have been presented to classes in marketing the past eight years, and the reactions of students to them have been an important factor in its preparation. The author wishes to express his appreciation of the helpful criticisms of his colleague, Professor W. A. Schaper, and to acknowledge the faithful assistance of his wife as a literary critic.

F. L. V.

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CHAPTER I

EXPLANATION OF PROBLEM

MARKETING is the transfer of goods, legally and physically, from the producer to the consumer.[1] Under the simplest or most complex conditions, it requires the performance, though in different ways and degrees, of certain functions: grading, assembling, storage, disassembling, transportation, financing, information, price determination, and assumption of risk.

POINTS OF VIEW

In making an economic appraisal of marketing, it is necessary to distinguish different points of view. The failure to do this has led to much confusion and error.

Of utmost importance is the contrast between the individualistic and the public points of view. The one is pecuniary in purpose, method, and re-

[1] Advertising is really one aspect of marketing. It appears separately in the title of this book and furnishes the entire subject-matter of two chapters because of its importance today in the sale of goods. As used in this treatise, marketing has two meanings, advertising being included in some instances and excluded in others. The particular context in which this word appears indicates its meaning.

sult; and the other is social. The former looks primarily to price and profit, and the latter to the satisfaction of human wants at the least cost of the factors of production.[2] The two points of view may coincide, but not necessarily. For example, one manufacturer, by dealing directly with individual consumers, may reduce the expense of selling his products; but this may mean an unnecessary and wasteful duplication of the media for marketing. In this instance a reduction of cost from the individual standpoint may mean an increase of cost from the social point of view. Only public or social welfare should be considered in making an economic appraisal of marketing methods and policies.

The acquisitive attitude is obviously the antithesis to the social. Its manifestation is the effort to secure a pecuniary gain without the performance of any economic service in return. An acquisitive practice, as monopoly or unfair competition, leads to a different distribution of wealth but to no creation of additional utilities. It conflicts, of course, with social or public welfare.

The difference between the production and the distribution of wealth should be kept in mind in

[2] In this treatise "individual" (or "individualistic") and "pecuniary" on the one hand and "public" and "social" on the other are used interchangeably.

ascertaining the causes of the present defects in marketing and in prescribing the remedies for them. One policy may affect the amount of the factors of production for the disposal of products; and another, the financial return from the sale of them. Changes in production and distribution arising from such causes may occur together or independently of each other.

It is necessary, also, to emphasize the functions of marketing rather than the instrumentalities which perform them. Society is interested primarily in the most effective rendition of these services with the least expenditure of effort.

INCREASE IN COST OF MARKETING

The cost of performing the marketing functions has risen greatly since the development of the factory system. An increasing proportion of the population has been engaged in selling goods and a decreasing proportion in making them. According to the Census Reports, in 1870 ten per cent of those gainfully employed were engaged in transportation, trade, and clerical occupations; and in 1920, twenty-five per cent, an increase of two and one-half times the relative number. The change in the proportion was especially noteworthy from 1900 to 1920, from sixteen to twenty-five per cent. On the other hand, in 1870 sixty-nine per cent devoted themselves to the ex-

tractive and manufacturing industries and in 1920 sixty per cent, a decline of nine per cent.[3] This shift in the character of employment clearly indicates that a much larger part of the consumer's dollar goes to marketing expense now than previously. The Joint Commission of Agricultural Inquiry recently stated that "we have now reached a point where it costs more to distribute and serve than it costs to produce." In support of this statement the Commission cites illustrative data, some of which may be briefly noted. In 1921 the cost of marketing bread was 49.2 cents of the consumer's dollar spent for this commodity, while that of handling and transporting the wheat and flour used in its manufacture amounted to 9.8 cents. In short, marketing absorbed fifty-nine per cent of his expenditure for bread. In 1921 oranges on the trees in California brought $2.30 per box to the grower, while the consumer paid $7.52. To quote the Joint Commission: "That it should cost approximately an average of 63 cents of the consumer's dollar to distribute 37 cents' worth of corn flakes, indicates a very definite need of an improvement in the processes of distribution."[4] According to the

[3] Within this same period the proportion of those in public, professional, and domestic and personal service declined from twenty-one per cent to fifteen per cent.

[4] *Marketing and Distribution*, House Report No. 408, Part IV, 67th Cong., 1st Sess., pp. 4, 210, 225. In the first quotation, "to produce" obviously

report in 1921 of the Committee of the Federated American Engineering Societies on waste in industry, extravagances of marketing "are an upstanding shame to American business."[5]

DEVELOPMENT OF PROBLEM

The basic causes of the marketing system of today are invention and prosperity. It is not necessary to inquire into the reasons for invention, such as the instinct of contrivance, division of labor, scientific progress, and economic reward.[6] The important consideration is that the technical advance in manufacture, transportation, and communication exerted its influence when and as it did. The result has been the modification of social and economic institutions. Prosperity arose primarily from the natural resources of this country and from inventions for their exploitation. In general, the Industrial Revolution constitutes the chief explanation of the transformation of marketing into one of our major economic problems. The validity of this statement will become manifest as the methods for the disposal of goods before and after the "revolution" are described.

means to create form utilities, and in the second "distribution" signifies marketing.

[5]*Waste in Industry*, p. 396.

[6]For a discussion of the causes of invention, see Vaughan, *Economics of Our Patent System*, pp. 1–16.

Before Industrial Revolution. Even as late as the first quarter of the nineteenth century the various states had more economic intercourse with Europe than with each other. The means of manufacture, transportation, and communication furnished a decided contrast to those of today. Inventions now regarded as commonplace had not been developed or even conceived. The economic isolation of various parts of the country and the handicraft methods of production fostered a high degree of self-sufficiency within each locality and family. The household arts and their significance in the economic life of the people require no enumeration or explanation. The same family that produced the raw materials converted most or all of them, as a rule, into the food, clothing, and shelter which it consumed. Any purchases or sales, with the exception of foreign commerce, were confined largely to the immediate locality. The occasion for coining the expression, "roundabout production," had not arisen. There was a better distribution of the population with reference to natural resources. Production and consumption were not separated as at present by time and space. Further, each family living unto itself sought goods not in order to have the approbation of others, but in order to satisfy elemental needs such as warmth and nourishment.

Under the pioneer conditions of a century ago the marketing functions were simple or practically absent. Under the régime of household economy, any grading of commodities consisted merely of assorting them for consumption or for conversion into finished products. Assembling was simply the placing of the raw materials in nearby buildings, where they remained until used. Disassembling meant no more than the gradual withdrawals from the existing supply. Goods produced and consumed by the same family obviously required little transportation. There was no repetition of these physical functions in reference to a particular commodity; the grading, assembling, storage, disassembling, and transportation of a product occurred only once, and under the simplest conditions. Financing in terms of dollars did not prevail to any appreciable extent. Waiting—the essence of financing—did exist, of course, but to a lesser extent because of the short duration between production and consumption. Self-sufficiency required no market information or price determination. Each family, to a large extent, produced what it consumed and consumed what it produced. By taking an inventory of existing supplies and future wants and by estimating the necessary amount of the factors of production, principally labor, for the creation of additional commodities of various kinds, it

proceeded with its economic program. The assumption of risk included the likelihood of crop failure and the physical deterioration of goods. The selling forces obviously did not play an important part in the disposal of goods; middlemen and travelling salesmen were scarce, and advertising consisted of mere announcements. Evidently, under the conditions of one hundred years ago, marketing was a problem of relative insignificance.

After Industrial Revolution. The last one hundred years brought more changes in marketing, as well as in other economic institutions, than any similar period in history. More effective and economical means of manufacture, transportation, and communication changed the economic life of the nation. Interdependence supplanted self-sufficiency. The factory displaced household industry, and trade became national rather than local. Roundabout production instead of simple and direct methods meant a greater separation of production and consumption with regard to time and space. The concentration of population in large cities and sections of the country, together with greatly increased facilities for travel and communication, affected the wants of the people. Prosperity enabled the consumer to meet any additional cost of making and marketing goods for the satisfaction of his desires.

The cost of performing the marketing functions necessarily became greater as a result of these changes in economic conditions. The preparation of goods for the market necessitated more and better grading, assembling, storage, disassembling, and transportation.

The separation of the producer and consumer, as regards time and space, required the repetition of each of these physical functions in the marketing of a specific product, and the improvement of the facilities for their performance. Witness, for example, the number of times that a single bale of cotton is graded, assembled, stored, disassembled, and transported; and the special facilities for the rendering of these services. Further, financing, information, price determination, and assumption of risk became new and important problems. Subsequent chapters present specific factors that explain the increase in the cost of performing each of the marketing functions.

The extra hazard in business deserves immediate consideration in order to explain the general development of the problem of marketing. The new methods of production caused much risk in the disposal of goods. The greater time and space between production and consumption meant additional uncertainty. Products made in one locality found a market in another, perhaps hundreds or thousands of miles away; and several

years might pass between the manufacture and utilization of them. The development of a national market signified likewise an enlargement of the field of competition. Moreover, since factories necessitated the investment of large units of capital, decreasing cost of production prevailed. The entire situation invited overproduction and cut-throat competition. The basis of rivalry was price; and the sale of goods depended upon the ability to undersell. Lastly, maladjustments in the economic affairs of the nation precipitated panics and depressions. These various factors—all the result of the so-called Industrial Revolution—led business men to devise ways and means of reducing risk. One of the measures consisted of shifting the basis of competition from price to quality and service—in other words, of giving more attention, relatively speaking, to the selling and less to the making of products. This explains the development of two forces—advertising and salesmanship—in order to accomplish such a result. Additional factors encouraged the use of advertising. Better and cheaper means of transportation and communication created a national market and thus invited a large-scale method of selling. Also, advancement in the arts of printing, photography, and photo-engraving—in short, invention—contributed to the utilization of advertising. Salesmanship and advertising, the

latter especially, have exerted a tremendous influence, as will later be explained in more detail, upon marketing.

Another policy, one without any justification from the public point of view, consisted of the securement of acquisitive advantages. These include all practices for attaining a pecuniary gain without the rendition of any economic service. The attainment of monopoly constitutes an appropriate illustration. However unworthy these acquisitive practices may be, they furnished a possible means of reducing or eliminating the risk of the manufacturer and others in buying and selling goods.

The foregoing effects of invention and prosperity, especially the emphasis of quality and service rather than price, ushered in new methods and problems in marketing. The cost and difficulties of selling goods became greater. Various measures to meet this situation fostered efficiency in specific instances, but in general added to the cost of marketing. Manufacturers, experiencing difficulty in finding channels of distribution for their products, resorted to direct selling either to retailers or consumers. Cooperative organizations, most of which ended in failure, sought to eliminate the middleman and his profit. The government fostered waterways and highways, for instance, presumably to reduce the cost of trans-

portation. These innovations and others like them, instead of effecting general improvements, resulted in a duplication and overlapping of functions and consequently a higher cost in the disposal of goods.

To repeat, the fundamental factors responsible for the transformation of marketing were invention and prosperity. The immediate result of invention was technical, affecting the supply of goods. Prosperity enabled the consumer to bear a higher cost of passing goods, physically and commercially speaking, from the producer to the consumer. That marketing has constituted a greater proportion of the final cost of consumption goods in the United States than in foreign countries arose largely from the ability and willingness of the American people to spend, especially since the beginning of the twentieth century. This very prosperity has been an obstacle to the realization of improvements, for it signifies indifference to economies and insistence upon so-called quality and service.

SPECIFIC CHANGES IN MARKETING

The specific changes in marketing may be grouped under three headings—marketing in the restricted sense, advertising, and acquisitive practices. The first two relate primarily to production and the third to distribution. All of them

increased the cost of getting products from the producer to the consumer.

Greater Cost of Marketing. Various factors contributed to a greater cost of marketing. Inventions of different kinds, especially those relating to refrigeration, containers, and other means of preservation made better products physically possible. Urban life and prosperity fostered the insistence upon quality by the consumer. More specialties in agricultural products and many brands of manufactured goods led to a greater variety. Invention and prosperity obviously contributed to this result. Better means of transportation and communication, the emphasis of quality, and prosperity promoted the prevalence of fashion. More emphasis of quality than of price, and innovations in merchandising led the consumer to perform less of the marketing functions, and to insist upon conveniences even in the limited extent to which he performed any of them. Illustrations of this are smaller units of purchase, greater credit, more delivery, and special services. Further, the emphasis of quality and service rather than of price necessitated a greater quantity and a finer quality of salesmanship.

These specific changes in marketing, all of them increasing the cost, resulted directly or indirectly and partially or completely from invention and prosperity. Some of them, quality and

style particularly, appeared with the development of a cosmopolitan life. All of them had the effect of stressing quality and service rather than price. Innovations in merchandising, as the extension of credit and special services, exerted a definite influence. These specific changes in marketing constitute the subject-matter of the next chapter.

The factory system, the outgrowth of the great inventions of the nineteenth century, caused the concentration of population in cities and certain sections of the country. As people migrated westward, it became necessary for factories to secure their raw materials and to sell their finished products in more distant markets. Favorable freight rates accentuated and perpetuated this arrangement. In short, marketing was adapted to the factory system already established. The cheap labor of newly arrived immigrants fostered the industries of the northeastern section of the United States. Consumers insisted upon products from remote rather than nearby places. The result of these factors was a wider separation of production and consumption and thus an increase in the cost of marketing, particularly in reference to transportation.

The disregard of cost to an appreciable extent by merchants, manufacturers, railways, and others intensified particular defects in marketing.

The prevalence of the same prices in a store for cash and carry as for credit and delivery purchases obviously encouraged credit, deliveries, and other services. The prices and rates of manufacturers and railways respectively which ignored the distance of shipment to an appreciable extent augmented the amount of transportation. They resulted partly from the desire to foster large-scale production—in other words, to utilize the modern inventions in manufacture and transportation more effectively.

Indirect subsidies, with particular reference to water and automotive carriers, caused an unnecessary duplication of transportation and other facilities. The provision of canals, harbors, and other waterways and of paved highways through general taxation led to an unfair and wasteful situation. It meant the necessity of supporting two or more means of transportation when one would suffice, and therefore an additional but unnecessary burden in the shipment of goods.

In the attempts to improve the system of marketing the undue emphasis of media and the neglect of functions produced unfortunate results. The mere elimination of the middleman, and other innovations in the instrumentalities of marketing goods, not only failed to effect the anticipated economies, but led to duplication and

other wastes. Experience slowly demonstrated that the necessity of properly performing the marketing functions constituted the essential means of effecting real improvements.

These specific changes—wider separation of production and consumption, disregard of cost, indirect subsidies, and overemphasis of media and neglect of functions—arose indirectly from invention and directly from specific innovations in marketing. They pertain primarily to the aspect of supply or the actual performance of the marketing functions. Chapter III is devoted to a detailed discussion of them.

Advertising. Advertising was the vehicle for shifting the basis of competition from price to quality and service. The necessity and possibility of this change, as already indicated, arose indirectly and primarily from the great inventions. Advertising, producing results that cannot be adequately measured, affecting all classes of people, and proceeding without the consent of the consumer, became more wasteful than any other competitive practice. An adverse criticism of it, therefore, is not necessarily a criticism of the remainder of the present economic order. For these reasons advertising deserves particular consideration. It should be analyzed from the standpoints of cost and utility.

In discussing the cost of advertising, it is im-

portant to differentiate the individualistic and social points of view. Advertising may effect economies and a pecuniary gain for a specific enterprise and at the same time cause waste and loss in economic society. The analysis of its cost from the public standpoint, as in chapter IV, must consider its effect upon the rate of turnover, elasticity of demand, regularity of sales, competition, cost of salesmanship, laws of cost, price policies, and middlemen.

The utility of advertising from the public point of view is determined by its effect upon the satisfaction of human wants. This theme constitutes the subject-matter of chapter V. Advertising has led to a better satisfaction of desires insofar as it fosters choice in consumption, availability of commodities, price information, introduction of inventions, improvement of goods, appreciation of art, and, in general, a higher standard of living. On the other hand, some of the results of advertising, such as the crudity of advertisements themselves, creation of disutility, goods vs. leisure, harmful consumption, sale of competitive goods regardless of intrinsic merits, sale of a less desirable class of goods, and excessive stimulation of consumption, have caused a poorer satisfaction of wants.[7]

There are other aspects of the utility of adver-

[7] These various points are explained in detail in chapter V.

tising. Good-will or institutional advertising, illustrated by the economic bulletins and reports of large banks, gives pertinent information to the public, though frequently from a biased point of view. Another aspect is the conflict between advertising and the conservation of the factors of production. An accusation that deserves consideration, although usually made with too little warrant, is the undue influence of advertising upon the news and editorial policies of magazines and newspapers. Lastly, advertising may serve as a barrier to monopolistic aggressiveness in that a concern with a well-known product is in a strategic position to withstand the intimidations of a would-be monopolist.

Acquisitive Practices. Acquisitive practices are at the root of various devices used by business concerns in meeting and exploiting the results of the Industrial Revolution. Chapter VI describes the principal ones—monopoly, unfair competition, a protective tariff, misuse of trading in futures, and certain phases of advertising and style. The trend toward monopoly, be it noted, followed the development of the factory system. It is primarily a marketing institution in that its purpose is to buy for less and sell for more than would prevail under competitive conditions. Unfair competition, following in the wake of the industrial transformation of the country, tends to

preserve the inefficient units of business organization and to destroy the efficient. The protective tariff, the clamor for which became intensified with the growth of modern manufacturing, fosters the exaction of higher prices in the United States than abroad. From the standpoint of this country the conditions under which it accomplishes this result, as explained later, are importation basis, differentiation of products, control of output, and comparative inefficiency. The misuse of trading in futures through gambling and manipulation is a comparatively recent development. The grain, cotton, and other exchanges, which supply the machinery for this abuse, owe their creation primarily to modern transportation and communication—in short, to a national or world market. Advertising designed to develop an inelastic demand for products and thus to increase their prices was another scheme for reducing the risk of certain manufacturers and for increasing their profits. The control of style by certain manufacturers and others constitutes an additional acquisitive practice.

REMEDIES

The agencies for effecting improvements in marketing are cooperation, individual initiative, and the government. Chapter VII describes the possibilities of cooperation in performing the mar-

keting functions more effectively. It presents the determinant factors in cooperative marketing—plan of organization, nature of commodity, volume of business, characteristics of members, degree of necessity, and leadership. The likelihood of monopoly among cooperative companies arising from the control either of future output or existing supply, is also considered.

The final chapter, devoted primarily to individual initiative, discusses the means by which the marketing system may be improved, and from this standpoint the topics taken up in other chapters receive further consideration. Proposals for the reduction of the cost of marketing include less emphasis of quality, variety, style, services, and salesmanship; closer relationship of production and consumption; greater consideration of cost; discontinuation of indirect subsidies; and emphasis of functions rather than media. The desirability of less and better advertising and the possibility of this improvement are discussed. An outstanding difficulty of attaining this objective, as explained, arises from the considerable control of public opinion by newspapers, magazines, and other media which depend largely upon advertising for their financial existence. Measures for the prevention of acquisitive practices include the preservation of competition, promotion of fair competition, modification of the tariff, and the

regulation of trading in futures. The function of the government in improving the methods of marketing should be confined to the conditions and rules under which the activities of individuals and cooperative associations may conform to public welfare.

CHAPTER II

GREATER COST OF MARKETING

AS previously stated, the increase in the cost of marketing, both absolutely and relatively, should be analyzed from two standpoints—that of the production and that of the distribution of wealth. Certain factors augment the amount of land, labor, capital, and enterprise used in the performance of the marketing functions. They include higher quality, greater variety, prevalence of style, changed relation of consumer to marketing functions, excessive use of salesmanship, wider separation of production and consumption, disregard of cost, indirect subsidies, and overemphasis of media and neglect of functions. This chapter and the succeeding one will treat upon these topics.

HIGHER QUALITY

The quality of goods has improved, especially since the 'nineties. This decade, 1890–1899, marks the beginning of an era of prosperity which has continued, with short interruptions, until the

present day. Farmers and laborers, and especially the former, despite the many just grievances to which they have recently been giving voice, have enjoyed a much better economic position than they did prior to 1895. Manufacturers and others have lost little time in exploiting this greater ability to buy goods of the finer sort. However, there were other periods of prosperity in this country, notably before the Civil War, without any tremendous change in the quality of goods.

Influence of Society upon Individual Wants. One reason for a greater emphasis of quality is the present extent to which the wants of each individual are influenced by others. Each person lives less to himself and more in society. He is more careful about the opinions of others and gives less weight to his own isolated judgment. Consequently, each buyer has tended to give less attention to the elemental qualities, such as durability and nourishment, and more to the appearance of products as seen by others. What changes in our social and economic life account for this reversal in the attitude of the buyer? Briefly, we have passed from a pioneer to an urban life. Several decades ago each person, in his contact with nature, was interested primarily in the elemental qualities of goods. He wanted food, clothing, and shelter that would nourish, warm, and protect him, and to a far greater extent than

at present he was able to tell the worth of the products offered to him for those purposes. But today urban life, together with general education and excellent facilities of transportation, make the wants of each individual subject to the influence of others. This whole situation, to repeat, intensifies the importance of goods of quality which enable a person to appear favorably in the eyes of others. It does much to explain the change in the basis of competition from price to quality. After passing through the period of cut-throat competition that prevailed in the 'seventies, 'eighties, and 'nineties, the manufacturer, instead of reducing the price of his product, seized the opportunity of emphasizing its alleged quality which the consumer, divorced from contact with elementals, in most cases is now no longer able to judge.

Manifestation. Technically speaking, this increase in quality manifests itself in different ways. Since the American people have been educated to insist upon having the best, the producer brings only the better products to market. This applies to unidentified products, like fruits and vegetables, as well as to the identified goods or brands of manufacturers. Another technical manifestation of higher quality is in the equipment of a store. The progressive merchant must invest heavily in attractive equipment. Various prod-

ucts are protected and displayed more and more by glass cases and the like.

Better means of preservation is another technical method of improving the quality of goods. Two aspects of this development may be noted. First, better storage facilities—dry air, cold air, etc.—are responsible for bringing perishable goods to the consumer and maintaining them in a high degree of perfection. One has only to recall the extent to which refrigeration has been used in preserving meats, vegetables, and dairy products, to appreciate the significance of better storage in improving the quality of products. Some of these articles whose quality has been kept in this fashion are identified, while others are not.

Another aspect of preserving goods is the use of containers. Merely casual observation convinces one of the extent to which goods are being sold in package rather than in bulk. Some of the many commodities that furnish examples of this tendency are bacon, eggs, cheese, prunes, crackers, syrup, candy, coffee, and vinegar. The increasing prevalence of the use of containers in the selling of goods is a reflection of the general demand of the public for higher quality. Packages make possible a better satisfaction of human wants. They assist in preserving goods brought from distant places and therefore make possible a wider variety. Packages also encourage frequent changes in

diet, since they usually contain small quantities. Moreover, the quantities are often arranged to facilitate measurement; for instance, some of the one pound cartons of lard are marked so that an exact spoonful or cupful can be cut off conveniently. The article suffers less from dust, decay, shrinkage, and the like. The manufacturer, enabled by the package to identify and advertise his particular product, strives to develop "selling points" or qualities. A slight disadvantage of the package, however, from the standpoint of the consumer is the difficulty of detecting changes in quality and quantity.

Increase in Prices. People necessarily pay higher prices for a better quality of products. The expensive equipment of a store promotes preservation and sanitation, but, on the other hand, adds appreciably to the cost of selling goods. Refrigeration, by maintaining the quality of products, encourages long shipments which result in higher prices.

Containers, as already intimated, often expedite assembling, storage, disassembling, and other marketing functions. The retailer is relieved of weighing and packaging goods as they are sold. Also, the package lessens waste by reducing the amount that spills and deteriorates. But in spite of these and other advantages arising from the use of containers, the invariable result

is a rise in prices. It is significant that the increase in the prices of packaged goods is disproportionate to the cost of the materials and labor necessary to make the containers. The advance is largely acquisitive. Much of it represents merely the greater attractiveness of the package rather than the higher quality of the product. Frequently, in fact, there is no appreciable change in the attributes of the commodity. The only difference is that the fancy package, together with the advertising of it, stimulates the senses, arouses the imagination, and therefore creates a fictitious value. The manufacturer may give as much or more attention to the container than to its contents, as illustrated by toilet articles. Further, less thought is given to price, as the packaged goods of rival manufacturers are not readily comparable. Each brand represents a particular quality, real or alleged, but usually no definite quantity, as a pound. The consumer thinks in terms of packages and not of prices, for certain quantities of standardized grades. Much of the increase in the prices of products since the use of containers became prevalent may be explained, in brief, by the practice of advertising the product and making people believe in its superiority, either real or alleged. The use of the container is an essential part of the present identification and differentiation of products.

GREATER VARIETY

The ever-increasing variety of products is a matter of common observation. This tendency is not synonymous with the higher quality of commodities. It would be possible to have more kinds of goods and yet the same or a lower standard of living. For instance, the differentiation between colors of eggs—white and brown—signifies variety but not higher quality. Likewise, over one hundred brands of tooth paste and one hundred and fifty different styles of collars contribute to diversity but not necessarily to quality. The tendency toward variety applies to convenience, shopping, and specialty goods, though in different degrees.

Causes. What explains this greater diversity of goods? First, one should look at the question from the standpoint of demand. The law of variety and the indefinite expansibility of human wants encourage the increasing number of commodities. The greater economic welfare since 1895 has also exerted an influence. Moreover, the fickleness of demand, as revealed in the way that people abandon one product or brand and adopt another, helps to explain the never-ceasing change in the goods on the market. This constant coming and going in itself augments the variety.

From the point of view of supply, this question

has asserted the greater influence. Supply has been the active factor, so to speak, while demand has merely responded to it. First, it should be pointed out that there are more specialties in agricultural products because of both natural and artificial selection. In other words, the process of differentiation in farm products has resulted in different kinds of commodities, as shown by the greater variety of fruits and vegetables. To illustrate, there are not only various kinds of apples but also a variety within each kind, distinguished according to size, shape, and other details.

There has also been a tremendous increase in the diversity of manufactured goods. This has been true even of products which do not bear trademarks. For instance, there are many shades of paint and designs of cloth. The increase in the variety of manufactured goods may be explained partially by the passing of industry from the home to the factory. Bread, for instance, is made mostly in the factory today and not in the home, and there is in addition somewhat more of a variety of it—wheat, raisin, rye, etc. One also finds more brands and sizes of each kind of manufactured goods. For illustration, we no longer have just "oatmeal," but a great number of brands and a diversity of containers. This applies to practically all of the things that people buy. The general reason for this is that the shift in the

basis of competition from price to quality necessitates differentiation and variety.

The increase in variety has also resulted from the sale of goods both in bulk and in package. Many products are today sold both ways when previously they were sold only in bulk. Today, for example, prunes, dates, raisins, lard, cheese, crackers, coffee, to mention no others, are sold both in bulk and in package. It is evident that this situation necessitates an increase in variety and therefore in the stock of goods which the middleman carries.

Another reason for the growth of diversity is invention, especially of the means of preserving commodities. Refrigeration, canning, and quick transportation furnish appropriate illustrations. They make possible the availability of practically all kinds of goods throughout the country and the world, and therefore augment variety. The increase in the average distance between the point of production and that of consumption, made possible largely by the inventions already mentioned, means a greater variety. For instance, Idaho potatoes and Rocky Ford cantaloupes compete with those locally produced. Further, invention results in new and varied kinds of products, illustrated by the present array of breakfast foods.

Result. A greater variety increases the stock of

goods of the middleman, and hence reduces the rate of turnover. As a result, many articles become shelf-worn or otherwise deteriorate in quality. Moreover, the fickleness of demand nowadays often causes a middleman to suffer loss from the inability to sell a particular product. A great advertising campaign may encourage the middleman to acquire a supply of a product which cannot be sold. This situation, in short, increases the amount of assembling, storage, risk, and other marketing functions.

The variety of goods increases the difficulty of each manufacturer to find a channel of distribution for his product. This applies particularly to the introduction of a new brand, with the consequence, frequently, that it becomes necessary for the manufacturer to advertise extensively and sell directly to the retailer or the consumer. Imagine the experience, for instance, of the manufacturer of a new brand of coffee in persuading middlemen to handle it. Most of them already have too many brands, so many as to reduce the rate of turnover. Whenever the manufacturer in self-defense is compelled to resort to advertising and direct marketing, he is apt to meet high expenses in the performance of the marketing functions. The result is an increase in the cost which society directly or indirectly must bear.

The excessive variety that prevails also aug-

ments the cost of fabrication. The same factory, for example, may be engaged in making many sizes, shapes, and designs, all of which discourages standardization and large-scale production. This in turn inevitably increases cost. The secret to the success of a few concerns, as the Ford Motor Company, rests upon the limitation in the variety of products and therefore the realization of the economies of standardization and large-scale production. Moreover, variety increases the cost of fabrication in another way. There are shifts from one size, shape, shade, or design to another, with the result that the manufacturer must be continually changing equipment, training employees, and in general altering the processes of production.

PREVALENCE OF STYLE

Style, which may be regarded as one aspect of quality, relates to design, shape, color, finish, and materials. It is manifesting itself in an ever-increasing number of products. Formerly fashion appeared in clothing primarily, but today it is a powerful force in the sale of most articles of personal use. Even food is becoming subject to its influence, as illustrated in the advertisements of sundry products to the effect that people of good taste consume particular brands. Incidentally one

should note that style is playing a greater part in determining what men shall wear.

Causes. Fashion, as will be explained in detail, means higher prices, and therefore flourishes during a time of prosperity. The general economic well-being of the American people, particularly since the late 'nineties, accounts partly for its greater prevalence in this country than in any other. *At present style exerts a widespread influence* because travel, advertising, magazines and syndicated articles pertaining to fashion, motion picture shows, and urban life enable the masses of the people to keep abreast with the latest vogues. These facilities, together with a greater availability of commodities, have made our society more dynamic and therefore have enabled it to respond quickly and universally to changes in style. In other words, they have increased the extent to which the wants of each individual are influenced by others.[1]

The rapid spread of the influence of fashion is also another manifestation of the shift from price to quality as a basis of competition. It is a well-known fact in the business world that standard-

[1] Mention should be made of the recent attempts to eliminate abrupt changes in style. Several manufacturers of automobiles, for instance, have discarded the practice of having yearly models and instead have adopted a policy of continual and gradual improvement. This should signify that a car will no longer be in style just one year, but instead that it will become obsolescent in a slower and more imperceptible fashion.

ized, graded commodities are sold on a very close margin of profit. They are subject to keen and sometimes cut-throat competition. The ability to remain in the market depends largely on reducing the cost of production sufficiently to meet the prices of rivals. To avoid such intensive competition manufacturers resort to an emphasis of alleged quality by giving individuality to their particular products. Style furnishes one way to differentiate a commodity.

Consequence. There is a larger mark-up on style goods than on staples. The advance in price is in direct proportion to the importance of fashion. It is for this reason that the mark-up on women's shoes and hats, for example, is higher than that on men's. The increase in the retail prices of style goods is unfortunately not limited to them alone. For instance, many merchants increase the mark-up on staple as well as dress shoes.

It remains to ascertain specifically what causes higher prices because of fashion. The answer is primarily in terms of risk. It is hazardous to be either the first or the last owner of goods in which style is a predominant factor. Only those who make or buy such products when they are at their height and dispose of them before a new fashion appears can be assured of safety. But no one can arrange his business in this manner. There must be forecasting or, better, guessing, and the stock-

ing up of commodities before the actual demand is known. Sales cannot be estimated either by the manufacturer or merchant and consequently the attendant risk is inevitable. Too much depends upon mere whim, caprice, and fickleness—things which are beyond human calculation. The result also hinges partly on the vicissitudes of an advertising campaign. The sale of goods may be predicated upon the success of such a campaign and hence upon a very uncertain factor.

Risk arising from style becomes greater as changes in vogues are more frequent and universal than formerly. The frequent changes mean the continual anticipation by manufacturers and merchants as to what the fashion will be and as to whether customers will respond favorably or not. The more general acceptance of style by the masses accounts for the greater inability to dispose of antiquated goods. There was a time when they could be sold in the rural sections of the country—in general, in the out-of-the-way places—but that day has passed. Fashions come and go quickly and completely. There is less difference in styles now as between classes of people and sections of the country than formerly, for practically all people adopt and abandon them simultaneously. More sacrifice in price is necessary now in order to sell old-fashioned goods. Changes in

vogue, to repeat, are frequent and universal, both of which attributes accentuate risk.

The shifting of styles, moreover, causes the waste of commodities from a physical standpoint. Antiquated goods become shelf-worn and in other ways deteriorate if they remain in the hands of the manufacturer or middleman. On the other hand, the consumer discards them before they are completely used.

Fashion also increases the amount of assembling, storage, and other functions performed in the marketing of goods. In order to have a complete assortment of styles, it is necessary to have a comparatively large stock of goods from which the public may select. The shoe dealer, for instance, must carry shoes of different shades and shapes and designs in order to cater to the finical wants of his customers. This necessitates a greater stock of goods and therefore to that extent reduces the rate of turnover.

Style implies that the problem is one of sale and not of production. Goods of fashion, varied and temporary in character, do not lend themselves to standardization and large-scale production. For this reason more materials, labor, and overhead are required in making them than staples. Also, style goods cannot be made and sold economically because of the "peak load." The manufacturer and the middleman, and especially

the latter, seek to avoid the maximum risk due to fashion by delaying their purchases until the last minute. The retailer will not finally approve his order of goods from the jobber or manufacturer until he must have them—until he feels more certain about what can be sold readily. The jobber, if he plays a part in the marketing process, resorts to a similar scheme by delaying his purchases from the manufacturer as long as possible. This means that the fabrication must be confined to a comparatively short period of time. Such a concentration of output, with its attendant rush and confusion, augments the cost of production. Moreover, the plant and employees can be utilized during only a part of the year. The remainder of the time is one of delay and expectancy and idleness. The development of style has accentuated the concentration of fabrication within a comparatively short period of time. This means the minimum utilization of the factory, materials, and labor, and consequently a higher cost.

CHANGED RELATION OF CONSUMER TO MARKETING FUNCTIONS

The consumer does less of the marketing functions than formerly, and insists upon conveniences and special services even in the limited extent to which he performs any of them. Illustra-

tions of the elimination or reduction of marketing functions, so far as the consumer goes, relate to smaller units of purchase, greater credit, and more delivery.

Smaller Units of Purchase. The consumer is buying in smaller units. The prevalence of containers makes it convenient to purchase in driblets. Formerly certain commodities, as flour, were sold only in large portions, but today they may be secured in various amounts, some of them quite small. The change in the method of living of the American people exerts a considerable influence upon their buying habits. The reduction in the amount of room in apartments and other living quarters means necessarily less storage space and the necessity of purchasing in a hand-to-mouth fashion.

One result of this situation, from the standpoint of marketing, is that the consumer performs less of the storage function; in other words, that a greater amount of this particular work is pushed back upon the retailer, jobber, and manufacturer. Today, in effect, the sellers of goods are supplying families according to their daily needs. This additional work on the part of those who sell goods to them must be compensated by higher prices. Another aspect of the hand-to-mouth buying of consumers is the necessity of engaging in more disassembling by the retailer, jobber, and

manufacturer. It means that the number of orders which they receive in proportion to the amount sold steadily increases; in other words, that the average amount purchased through each order of the consumer is less than formerly. This increases necessarily the cost of disassembling. Small-scale buying requires, of course, the greater use of containers. Whoever may bear the initial cost of them—whether the manufacturer, jobber, or retailer—the fact remains that they constitute an additional expense which must be borne by the consumer. Moreover, smaller units necessitate a greater amount of labor in preparing, delivering, and recording the units of sale. Another result of smaller purchases is that the quantity of commodities held in readiness for the consumer must be greater. This necessitates more financing by manufacturers and merchants.

Greater Credit. Another aspect of the lesser extent to which the consumer performs marketing functions is the greater advancement of credit to him. This is especially noticeable within recent years, as shown in the widespread growth of instalment buying. Various explanations may be offered for this development, but the main one is that the pressure of salesmanship and advertising on the limited purchasing power of the people has become so great as to necessitate more credit. The rivalry between various sellers of advertised

goods has become so keen and the purchasing ability of the people so limited in proportion to the goods offered at high prices that the sellers have been forced to resort to credit on easy terms. That this new policy presents danger to the business man, the consumer, and the public generally cannot be seriously questioned. Most of these purchases are of consumption goods, such as furniture, musical instruments, and clothing. Adverse criticism applies to transactions of this sort, especially to the purchase of goods whose value greatly declines immediately after consumption begins. The judicious purchase of production goods on the instalment plan presents no specific danger, of course, as they assist in providing the means of payment.

The instalment plan, as applied to consumption goods, may work well so long as prosperity prevails. But the moment that a disturbance in industrial society occurs, it means the inability of one group to pay; this in turn affects other groups, and thus the circle leading to depression must occur. Any economic disaster arising from instalment buying will be more severe than the depressions of the past. The former will represent the concentration of economic ills not only of the present and future but also of the past, while the latter has related primarily to the present and the future. In other words, the next depression will

mean the inability to carry on economic activities now and in the immediate future, and in addition the failure to collect for what has been sold in the past, while former depressions pertained largely to the present and the immediate future. The widespread adoption of instalment buying of consumption goods, mostly luxuries, contains a great element of risk. This inability or unwillingness of the consumer to finance his purchases as he makes them means the transfer of a larger proportion of the financing problem to the seller. The greater risk in financing on the part of the seller because of instalment buying must be compensated for by higher prices to the consumer.

More Delivery. The consumer, moreover, is performing less of the transportation function. Deliveries are increasing in expensiveness. They are made for longer distances and with greater frequency now than in the past. This increase in the amount of transportation that the seller must furnish necessitates, of course, higher prices for his goods. One tendency which would indicate that the consumer is performing more of the marketing functions is the growth of cash and carry stores. They do signify, as their name suggests, that the consumer, though buying in small units, finances his purchases as they are made and further that he performs the delivery or transportation service. However significant and whole-

some the cash and carry movement may be in reducing the cost of goods, the fact remains that it is confined largely to the grocery trade and even in that field it does not predominate. The increasing growth of the credit business of stores and the insistence of the people on quick and long deliveries more than offset, it seems, the economic results of the cash and carry system.

Special Services. The conditions under which the consumer performs any of the marketing functions are becoming more inviting. Special services, so-called, are used to draw trade. They include attractive stores, trained salesmen, restaurants, rest rooms, information bureaus, purchases on approval, exchange of goods, etc. The department stores particularly represent the tendency toward such facilities. A few of them, in order to gain patronage, offered special services for which nominal or no charges were made. Their competitors, in an effort to protect their own business, resorted to the same and perhaps additional inducements. Thus the movement continued until practically all department stores found themselves burdened with an additional expense without compensation in a larger volume of business. In the meantime the people, having become accustomed to special facilities, insisted upon them. The customers, those who partake of such services, must pay for them in higher prices.

EXCESSIVE EMPHASIS OF SALESMANSHIP

The number of middlemen and travelling salesmen has been increasing rapidly within recent years—a fact subject to much criticism of late. It would seem that the number is greater than an efficient marketing system would require.

Causes. The general explanation of this is the shifting in the plane of competition from production to selling—in other words, less emphasis of price and more of quality and service. Of these three bases of competition—price, quality, and service—the second and third are receiving an ever-increasing amount of attention. The emphasis placed upon these two, quality and service, rather than price means that greater pressure must be brought to bear in selling goods than formerly. The real or alleged quality and service of products must be impressed upon buyers in order to sell them. In contrast to this situation, sale on the basis of price is simple. So long as price is the main consideration, as is still true of wheat, cotton, and other commodities, less expense arises in the marketing process. The price appeal itself is sufficient to sell such goods. The attempt to dispose of products by emphasizing quality and service instead of price has manifested itself in salesmanship and advertising.

The tendency towards excessive emphasis of

salesmanship may be illustrated from the point of view of either the manufacturer or the middleman. The increasing use of salesmanship by the manufacturer may be shown in various ways. He may have "specialty" salesmen working in conjunction with the jobber and therefore retain the orthodox system of distribution, or he may have regular salesmen who sell direct to retailers and perhaps to consumers. The decision of one manufacturer to place more emphasis on salesmanship rather than fabrication forces his competitor to follow suit. The plane of competition, to repeat, among many manufacturers is one of quality and service, and therefore they compete with each other in their endeavors to convince people of these two attributes which their goods possess. Consequently rival groups of salesmen are pitted against each other, all seeking to inflate the importance of certain articles in the minds of prospective buyers. The salesmen of one manufacturer under such a competitive condition are necessarily employed to counterbalance those of his competitors.

Moreover, manufacturers are ever seeking to realize on their advertising campaigns. Tremendous expenditures are made by them in advertising their goods. In thus giving information more or less true about their products and persuading people to purchase them, they are engaged to

that extent in selling them, while formerly they relied entirely upon the jobber and the retailer to perform that function. Manufacturers have felt that the jobber either cannot or will not push the sale of their advertised products as he should. It should be remembered that the jobber usually handles competing brands and therefore must play an impartial rôle, that of an order-taker primarily, in selling them. For this reason alone he cannot furnish salesmanship which will connect with and strengthen the advertising carried on by the manufacturer. Furthermore, if the jobber has his own private brands, he seeks to sell them with unusual persistence. Unable to serve two masters, he inevitably neglects the manufacturer. Hence the latter more and more is resorting not only to specialty salesmen, who are expected to instil enthusiasm among jobbers and their salesmen, but also to regular salesmen for the purpose of selling directly to retailers or consumers. The result is, of course, that the manufacturer may be selling to retailers at the same time that the jobber is selling competing brands to them through his own organization. An excessive number of individuals is evidently used to accomplish a result which fewer could do just as well.

The manufacturer, in stressing salesmanship and advertising, has brought about the creation

of new types of middlemen as well as the increase in the number of orthodox middlemen and salesmen. In resorting to advertising, for instance, he has employed agencies and managers. Thus new types of middlemen as well as a greater number of the old type, result.

The slowness of certain middlemen in some industries to adapt their functions and methods of operation to the requirements of the manufacturer and consumer, as already indicated in another connection, has tended to produce a greater number of them. Sales nowadays must be quicker and more dynamic. Goods which are perishable because of the style element or physical deterioration have invited the use of more direct distribution. The insistence upon quality on the part of the consumer necessitates a shorter and quicker chain of marketing. The result of this is, of course, to add to the total number of individuals who are engaged in the marketing of a particular product.

Among the middlemen, especially the retailers, the number has been increasing at such a rate as to indicate inefficiency. In fact, that there are an excessive number of retailers has been the complaint of investigators since marketing has been under consideration. Little capital is required to enter the retail business. The number of unnecessary grocery stores and "filling" stations, for ex-

ample, would indicate the ease with which people of limited means may enter these fields of activity. On the other hand, the number of jobbers is not so excessive because considerable capital is necessary to undertake the jobbing business. Another factor which throws light on the plethora of retailers is the demand on the part of people, together with their willingness to pay, for excellent service. They want to buy at places easily accessible, which explains the multiplicity of neighborhood stores. This is a manifestation again of the shifting of the basis of competition from price to quality and service.

Effect. The effect of excessive salesmanship is obviously to keep the cost of marketing unduly high. The manufacturer or middleman, especially the retailer, usually does not have a sufficient volume of sales to reduce his cost to a reasonable minimum. This situation means, in short, a high cost per unit and therefore high prices. Another way of describing this same effect is that the present system leads to duplication and overlapping of marketing functions, with attendant confusion and waste from the public standpoint. Many more are engaged in marketing than are necessary. Some of the responsibility for this situation, as already explained, may be attributed to the competitive salesmanship among manufacturers and middlemen—to the stressing of

quality and service rather than price. The remainder of the blame may be ascribed to the insistence of the consumer upon quality and service and his ability and willingness to pay for them.

Some of the writers on this particular topic have sought to answer the question of whether or not too many middlemen and salesmen are now in operation by comparing the number of them with the size of population, volume of sales, etc. It is pointed out, for instance, that the number of middlemen in proportion to sales is decreasing. But this and similar comparisons lose sight of the fact that marketing conditions may change so as to make them inapplicable. To illustrate, a much larger proportion of goods is sold in package form at present than in the past; the average person buys more commodities than formerly because of the disappearance of practically the last vestige of self-sufficiency in the home; and moreover, products generally are selling at much higher prices now than formerly. Therefore in view of these three factors it is useless to say that the number of middlemen is not excessive because the value of products handled per middleman is greater. The sale of goods in packages and more of them to each person and at higher prices would certainly mean a greater amount of sales measured in dollars per middleman than formerly. No satisfactory comparison between the number of

middlemen and disconnected facts, such as the amount of sales, can be made. The essential test is whether or not the present marketing system encourages the maximum utilization of the factors of production. The answer to this cannot be proven statistically, but the evidence based on observation would clearly indicate that the present system fails to meet the requirement.

One result of more salesmanship and advertising is the greater likelihood of failure among manufacturers and middlemen. It is generally estimated that about thirty per cent of the business disasters are due to lack of capital and another thirty per cent to incompetence. These two causes have always been used in explaining such failures, but they have assumed more importance within late years because of the recent changes in our marketing system. A larger initial investment and greater expenses for salesmen and advertising are now essential in successful merchandising. Further, the manufacturer or middleman must have greater ability in order to play the game advantageously. The present situation calls for a newer and more aggressive type of merchant. The marketing system of today is more intricate, complex, and hazardous than in the past. Modern selling is different from mere storekeeping. More capital and ability are now necessary to engage successfully in merchandising. To sum-

marize, the greater emphasis of salesmanship and advertising accentuates the chief causes of failure among middlemen—lack of capital and incompetence—and therefore contributes to this extent to a higher cost of marketing.[2]

[2] A more complete discussion of advertising and the part it plays in modern business appears in chapters IV and V.

CHAPTER III

GREATER COST OF MARKETING

(Continued)

WIDER SEPARATION OF PRODUCTION AND CONSUMPTION

A WIDER separation of production and consumption is another reason for the high cost of marketing. While the section east of the Mississippi and north of the Ohio contains but one-eighth of the area of the United States, it has nearly one-half of the population and produces more than two-thirds of the manufactured products, but only one-fourth of the agricultural products.[1] This section of the country must exchange its surplus of finished goods for the raw materials of the remainder of the United States. From the standpoint of both time and space, philosophically speaking, there has been a widening gap between the producer and the consumer.

[1] Report of the Joint Commission of Agricultural Inquiry, *Transportation*, Part III, House Report No. 408, 67th Cong., 1st Sess., p. 9.

Overemphasis of Economies of Large-Scale Production. More attention has been devoted to the economics of "large-scale production" than to the efficient management of marketing. Beginning as early as Adam Smith and his illustration of the advantages of large-scale production in the making of pins, etc., and continuing through the various economic writers from his day to the present, one may note the importance which has been attached to manufacture on a large scale. Great stress has been put upon division of labor as between individuals and sections of the country. Even the typical elementary economics text-book of today still devotes more attention to these subjects than to the means of reducing the cost of marketing. This, undoubtedly, has influenced the minds of men engaged in industry, politics, and other pursuits, with the result that our economic institutions of today reflect the attempt either to foster territorial specialization and large-scale production or to perpetuate their existence. Marketing has been adapted to the factory system. This is particularly undesirable since the advantages of one section over another, especially in reference to power, capital, and labor, are not so marked now as formerly. Witness the adaptation of the South to textile manufacturing in comparison with the North.

Illustrations of the overemphasis of large-scale

production are found in the freight rate structure of the railroads and the price policies of manufacturers. Rates, which have been initiated both by railroads and by commissions and which are still in existence though in a lesser degree, ignore to a large extent distance and therefore the principle of cost. They are designed, for instance, to enable the large manufacturer to bring his raw materials from distant places at a nominal cost and then to permit him to distribute them over a wide territory. In short, large-scale production in manufacturing usually presupposes and necessitates the drawing of raw materials from remote sources and the sending of finished products to a distant market. It is axiomatic that the division of labor and other so-called economies of large-scale production are conditioned by the size of the market. Large-scale production and the greater concentration which accompanies it, necessarily mean a greater cost of marketing.

Marketing has been adapted to the already established factory system. An illustration of this and another aspect of the wider separation between production and consumption is the attempt to perpetuate manufacture in the northeastern states. The textile, shoe, and many other industries developed in New England and the Middle Atlantic states at a time when they were comparatively near the center of population and

much closer than today to the geographical center of the United States. But since then they have found themselves farther and farther away from these centers. They have been compelled, in other words, to secure their raw materials from more remote places and particularly to send their finished products to more distant markets. To enable them to do this and at the same time compete on an equal footing with competitors who have developed at places more centrally located, the freight rate structure has been adjusted, ignoring distance and therefore cost to a great extent, in order to keep them in business. The result of this indirect subsidy has been to maintain and even to increase the distance between manufacturers of the East and the consumers in the other and greater portion of the United States. Another factor in transportation that has protected the industries of the East unduly has been water transport, illustrated particularly by the Panama and Erie Canals, both supported partly by public taxation. Such subsidized transportation has been used as a weapon for keeping down the transportation and other costs of the eastern industries.

Another force which has enabled the manufacturing of the Northeast to survive and even to grow, thus separating still more the producer and the consumer, has been the cheap immigrant

labor that has come to that section of the United States. Until recently approximately one million foreigners arrived annually, flooded the labor market, and thus provided cheap labor. These immigrants would drift westward and their places would be taken by another wave of newcomers. A very large proportion of them were unskilled and ignorant, and could be readily exploited, but fortunately the entire situation in reference to them is changing. Recent laws of this country have reduced the annual number of immigrants to a fraction of the horde that used to pour in before the World War, and, further, a smaller proportion of them are of the sort that would make wages unduly low. Recently, as a result, wages, especially for common labor, have been advancing more in the New England and Middle Atlantic states than elsewhere—a situation which properly enough serves as a damper to the perpetuation, to say nothing of the further growth, of manufacturing in those states.

Undoubtedly the northeastern industries should hold their own insofar as their products are consumed by the population tributary to them. In so doing they will be guided by the principle of maintaining and encouraging shorter distances between producer and consumer. But there is no economic justification for depressed freight charges and cheap immigrant labor to

enable them to sell their goods throughout the United States, thus lengthening the distance between manufacture and consumption and augmenting the cost of marketing.

Concentration of Population in Cities. Another factor which accentuates the separation between producer and consumer is the ever-increasing extent of the concentration of population in cities and certain sections of the country. Many reasons may be advanced for this urbanization of our population. Undoubtedly one is the result of overemphasis of large-scale production in manufacture. This in itself entails the assembling of relatively large numbers of people near factories. Other influences also, of course, have manifested themselves, such as the superior social, educational, and religious advantages which the city offers. The extent to which this movement is taking place as attested by the decennial census reports is a well known fact.[2] Necessarily, as this change takes place, the people, in obtaining their food and other products, must draw on sources of supply which are farther and farther away.[3] Witness the great distances that fruits and vegetables, for instance, are shipped today. According to a study of the Joint Commission of Agri-

[2] At present more than one-half of our population resides in cities of 2,500 population or more.

[3] This statement does not apply, of course, to that small proportion of goods manufactured and purchased in the same city.

cultural Inquiry, the average length of haul of perishable products is 1,400 miles; and the freight rate takes about one-third of the selling price, frequently running as high as two-thirds.[1] Moreover, since the advent of machinery, with its attendant division of labor, the self-sufficient family, especially in the city, has practically disappeared. Many articles formerly made at home are now produced in factories. People now buy a larger proportion of their food, clothing, and other commodities than formerly. This fact, together with the concentration of population in cities, means a wider separation between production and consumption for an ever-increasing volume of goods per person. This situation—a greater cost of marketing because the people are drifting to the cities—may be described in another way by saying that the population is not distributed with respect to natural resources so as to minimize the cost of marketing.

Insistence upon Products from Remote Places. The insistence of consumers upon products from distant places—one aspect of their demand for a greater variety—has also augmented the distance which goods must travel from origin to destination. People are no longer content to limit their consumption to those goods produced in the immediate territory. They have been educated

[1] *idem*, p. 6.

through advertising and other forces to want the fruit, vegetables, dairy products, sea food, etc., from a remote region, perhaps from a foreign country, or to desire a somewhat different and perhaps more exclusive brand of manufactured article, likewise from a distance and likewise, it may be, of foreign origin. There are many examples of the shipment of various products from a distance when they might be obtained from points relatively near to hand. For example, large proportions of the apples of the Pacific Northwest and of New York State pass each other on their way to market.[5] The price policies of some manufacturers—charging the same for a product throughout most or all the country—and a freight rate structure which partly ignores distance have contributed to this situation. So long as people insist on cantaloupes from Colorado, potatoes from Idaho, oranges from California, grape-fruit from Florida, etc., regardless of where they live, they encourage a wider separation between production and consumption and, therefore, a greater cost of marketing.

Result. The result of the greater distances between producer and consumer has been, of course, to increase the amount and therefore the cost of some of the marketing functions. Transportation

[5] Federal Trade Commission, *Report on Wholesale Marketing of Food, 1919*, pp. 48–51.

particularly must be used to a greater extent as this separation becomes more pronounced. For example, in 1921 it accounted for fifteen per cent of the retail price of corn flakes.[6] The average number of miles which the average commodity moves is growing, and this fact alone goes a long way toward explaining the additional cost of marketing goods. Evidence which substantiates this conclusion may be found in the increasing number of people, in proportion to population, engaged in transportation. Moreover, the mere fact that this development requires more time in the passage of goods between the producer and the consumer necessitates more storage. The goods must be preserved and kept over a longer period of time. This in turn entails a greater investment in the products and hence a greater expense of financing them. Also, large-scale production with the necessity of drawing raw materials from a wider territory and distributing them over a larger region means in itself more assembling and disassembling of goods, and to that extent a greater cost of marketing. Difficulty and uncertainty accompany the attempt to secure market information from a wider area. Price determination, accordingly, presents a greater problem. Lastly, this whole arrangement—greater time

[6] *Marketing and Distribution*, Part IV, House Report No 408, 67th Cong., 1st Sess., p. 212.

and space between the producer and the consumer—means necessarily greater risks.

DISREGARD OF COST

Another reason for the excessive expense of performing the marketing functions is the extent of the disregard of cost in price determination. Cost provides one of the guides to economic activity. Ignoring it leads to a wasteful use of the factors of production and hence to a burden which the public must bear. Illustrations of the practice are furnished by the merchant, the manufacturer, and the railway.

Merchants. In the field of merchandising, in retailing especially, there is a widespread disregard of cost. An excellent illustration of this is found in the prevalence of the same prices in a store for cash and carry as for credit and delivery purchases. The loss from bad debts and the cost of delivery constitute approximately five per cent of the prices of commodities, and yet the prices in many stores are the same regardless of whether a customer pays cash or receives credit, and of whether he carries his purchases with him or asks for delivery. Moreover, it is true in many establishments, especially in department stores, that customers who receive credit and delivery services are also favored in other ways, such as purchases on approval and the privilege of return. In effect,

these two classes of customers really buy different things, but all pay the same prices. Some purchase commodities only, while others purchase the same commodities and in addition certain services, yet pay the same prices as the former.

Sound economic principles, it is evident, cannot justify an arrangement of this sort. The merchant testifies that experience demonstrates that different prices cannot be charged for the same articles on the basis of a lesser or greater amount of service in the form of credit, delivery, etc. Strange as it may seem, those customers who demand these accommodations regard higher prices directed only at them as discrimination, when in fact they are designed merely to cover the cost of the additional services. In other words, the merchant regards two different sets of prices based on differences in services as impractical. For the sake of expediency—to prevent offense to certain customers—the same price is usually charged to all. The result of such a policy is the insistence upon credit, delivery, and other services by all customers, since they learn that it is to their self-interest as individuals to ask for them. For instance, a prospective purchaser of furniture may be told that no distinction is made between cash and credit prices. The result is that, though having the ready cash, he buys on credit. His money then can be used for other purposes. The failure,

in other words, of any one store to charge according to cost is to invite all customers to take the fullest advantage of the extra services. This in turn increases the losses from bad debts, the cost of delivery, and the burden of other facilities,—all of which must be borne by the customers in the form of higher prices.

Manufacturers. Various concerns, as the United States Steel Corporation, have developed plants or factories at various points throughout the country and yet have continued to charge for the products of all of them on the basis of the cost at one of them, as the one located in Pittsburgh in the case of the steel corporation, plus the cost of transportation from that particular plant, as Pittsburgh, to destination. The order might be filled from a mill nearby, as in Birmingham, Alabama, and yet the price would be that of Pittsburgh plus the cost of transportation from that point to destination. This price policy represents the continuation of the practice that prevailed when only one plant was in operation, namely, the cost at that plant plus the cost of carriage. As other plants developed, this practice continued partly as a matter of custom and expediency. But undoubtedly the main reason for the development of this price policy, as will be explained later, was the desire to secure higher prices for steel products. It should be added here that this

acquisitive scheme has been curbed to some extent by legal action.

The chief economic result of this price policy is that it prevents the working out of the law of comparative cost with respect to production and marketing. One locality, as Birmingham, Alabama, which might produce a product at a lower cost than the central plant in Pittsburgh, could not have the opportunity to manifest its efficiency because the prices of its products would arbitrarily be those of the central plant plus the cost of transportation to destination. It may also be true that the cost of marketing from a branch plant would be less than from the central plant, but again this comparative advantage could find no expression since the price would depend upon another set of costs,—that of making and selling the product of the central plant.

Railways. It is a well-known fact that railroads do not charge for hauling goods even approximately according to cost. Many examples of this might be offered. Certain sections of the country, as New England and a large portion of Texas, form blanket-rate territories; that is, the rates to and from these sections are the same with respect to a considerable portion of the United States. The coal fields to an appreciable extent are also blanketed so that the cost of shipping coal from

a distant mine may be the same as from one nearby.

Further, many sections of the country, in shipments from a particular locality, have very slight differences in rates although wide differences in location. It has been estimated that the cost of transportation increases with the square root of the distance. If this be a true formula, the conclusion is that since many rates do not increase in this fashion they consequently disregard cost.

The basing point system of rate making ignores cost and operates to the advantage of the city and to the disadvantage of the nearby town. Thus, town *B* may be located between city *A* to the north and city *C* to the south, both of which are basing points, but a merchant in *B* who receives goods from the north must pay the rate to basing point *C* which is to his south. Many places, therefore, in shipping or receiving goods, pay the rate to the first basing point beyond.

Commodity rates also ignore cost in two respects at least; first, they are unduly low as a whole, affording little more than the additional or out-of-pocket expenses to the railroad; and second, they ignore distance to a considerable extent, furnishing practically blanket rates.

Another example of the disregard of cost by railroads is their practice of charging less for a

long haul than for a short one. The most common justification of this by the railroad is water competition. The great weakness of this contention is that water transportation as it prevails does not reflect cost. The public bears most of the expense of dredging rivers, improving harbors, and constructing canals. The cost of water transportation includes little or nothing as a compensation for these subsidies. In effect, only the direct cost of operation furnishes the criterion in ascertaining water rates. Since they do not reflect cost, it is obvious that railroads, in making charges to meet them, must be guided by expediency rather than by scientific principles.

The disregard of cost by railroads arises from the greater emphasis of production, of competition between carriers and shippers, and of general expediency. In this country, as already shown, there has been a much greater emphasis of large-scale production than of marketing. The rate structure has been shaped largely by railroads and public authority to enable factories and other producers to secure their raw materials and to market their finished products. Consequently distance and cost of transportation have been ignored to a considerable extent. The competition between rail, water, and automotive carriers

has also been conducive to the disregard of cost. As a matter of expediency, the railways try to follow the principle of making traffic move, and therefore they charge accordingly. Thus they shift the responsibility for success or failure of their patrons by making a rate structure that will enable all of them to reach markets on an equal footing with their competitors. In short, the railroads, by ignoring cost to a great extent, seek to widen the market and thus to enable all their shippers to prosper according to their efficiency in production.

The disregard of cost by railroads means the rejection of the economic differences between long and short hauls. In other words, if the freight rate is practically the same for a long haul as for a short one, the shipper will solicit business from one section as much as another. Consequently the average distance of shipment and to that extent the costs of marketing are bound to increase. New York, New Orleans, and San Francisco, receiving the great proportion of our coffee importations, distribute this product in the others' immediate territory. A shipment of coffee from New York frequently passes one from New Orleans or San Francisco. Each is engaged to an appreciable extent in carrying coals to Newcastle. Many other examples of this sort could be cited.

INDIRECT SUBSIDIES, WITH PARTICULAR REFERENCE TO AUTOMOTIVE CARRIERS

The preceding discussion, especially that part of it which bears upon the disregard of cost, indicates the prevalence of indirect subsidies of one sort or another. The merchant frequently charges the same prices to customers who pay cash and carry their purchases as to those who insist upon credit, delivery, and other additional services. Likewise, manufacturers and railways exact charges in violation of the principle of cost. In these instances certain patrons, localities, and commodities are favored or subsidized indirectly at the expense of others. These discriminations, however, are moderate and arise primarily from expediency. It remains to examine another phase of favoritism—one fostered by the government, on a large scale, and usually for the purpose of promoting competition, especially in the field of transportation. The outstanding examples are automotive and water transport. There are enormous bond issues and appropriations for hard-surfaced roads, for canals, and for the improvement of rivers and harbors. At present taxpayers in general bear most of the cost of these projects. Whether or not this situation increases the cost of marketing, or transportation particularly, deserves consideration. The effect of either automo-

tive or water transport manifests itself mostly in reference to the railway. The problem is considered below, on the basis, first, of the soundness of the relationship between automotive transport and railways; and second, of the economic desirability of competition between them.

Unfairness of Competition. Whether motor transport represents fair or unfair competition depends partly upon the extent to which it pays the expense of building and maintaining the highways which it employs.[7] The cost of them is defrayed by various classes of taxpayers. Do the owners of automobiles, buses, and trucks bear their just and proportionate part of it? In this connection it should be remembered that hard-surfaced roads are a specialized and expensive highway like that which the railway employs. The one is devoted primarily to motor and the other to steam transportation.

Many of the railways paid the entire original cost of their lines, and all of them today bear the financial burden of maintaining them. It is true that some railroads received subsidies when con-

[7] At the present time the people of the United States are expending approximately one billion dollars yearly in the construction of improved highways. This amount is constantly growing; for example, some states, as California and Pennsylvania, are now preparing to build industrial highways designed for the exclusive use of trucks and buses. California also expects to construct parallel paved highways analogous to a double track, to facilitate the movement of automobiles. *Trade Winds,* The Union Trust Co., Cleveland, Ohio, December 1925, pp. 9–11.

structed, but these subsidies were necessary, as the roads thus aided were built ahead of their time, in other words, prior to the development of sufficient traffic to maintain them. Even with such subsidies nearly all the railroads that received them have gone into the hands of receivers at one time or another, usually because of lack of traffic. The fact is, to repeat, that the railroads with limited exceptions, which may be justified, bore the entire expense of right of way and track, and all of them today carry the whole burden of maintenance.

To what extent do automotive carriers pay the cost of constructing and maintaining the paved roads? No definite answer can be given in terms of percentages or dollars, but it seems certain that in the country as a whole they do not defray even the major part of the expense. It is true that the automobile, bus, and truck are now subject to higher license fees and gasoline taxes. But the fact remains that they do not yet pay a proper proportion of the cost of building and maintaining the specialized highways designed for their use. Who bears the remainder of the expense of such thoroughfares? The answer can be furnished immediately by any taxpayer. The remainder comes from taxes levied on other property, and, in this connection, it should be borne in mind that in most counties the railway constitutes the

chief taxpayer. This situation means that the railway carries a considerable part of the financial burden of providing a "track" for its competitor. In other words, the railway is forced by taxation to subsidize its competitor by defraying an appreciable part of the expense of its roadway. It would require a perversion of our idea of fairness to justify such an arrangement.

The essence of the unsoundness of this situation may be realized by giving an illustration in another field of business. Suppose that the proprietor of a grocery store should have his building partly or entirely paid for by taxing his competitors and others. That situation would be obviously unfair. Instead we insist that each grocery store pay its own way and that none of them be subsidized indirectly by forced contributions from its competitors and others. Then should we expect or even tolerate a subsidy for automotive transportation by taxing railways and others to provide paved highways? The automotive carrier, like the proprietor of the grocery store, should pay its own way.

If one remembers that motor transport is subsidized, he can expose its alleged cheapness. If the motor truck, for instance, had to pay its own way by defraying its proportionate part of the highway expense, its cost of operation would be increased appreciably. Without having to do this,

it can charge lower rates and therefore give the appearance of furnishing cheaper transportation. These rates, however, should deceive no one, because they depend upon the indirect subsidy for the motor truck. The real cost of transportation by truck consists of the tariff which it charges plus that part of the expense of the highway borne by the general taxpayers. In a careful study of the costs of operating trucks, the Engineering Experiment Station of Iowa State College found in 1924 that the average cost on a concrete road was eight cents per gross ton mile.[8] This computation does not include the expense to the public of building and maintaining the highways. If the entire cost of transportation by truck, regardless of who pays for it, were considered, the result would show that transportation by truck is much more expensive than by railway. The cost of hauling freight by rail in 1924 was approximately one cent per ton mile.

Let us turn to the grocery store illustration again. If, for instance, one store were subsidized by other taxpayers, it would be in a position to sell groceries at lower prices. Some people, looking only at the superficial, would declare that that arrangement had reduced the cost of groceries. A moment's thought would immediately reveal that the cost had not been reduced, but

[8] Bulletin 69, p. 20.

instead that a part of it had been borne under the guise of taxation. Likewise the cost of motor-truck transportation is not as low as most people think, because a part of it is borne by the general taxpayers, of which, remember, the railway is usually the most important one. The railway as a principal taxpayer in defraying the expense of building and maintaining paved highways is compelled to assist in subsidizing its competitor. The unsoundness of this relationship speaks for itself.

The second question to consider, in deciding whether the relationship between automotive transport and railways is sound, relates to the degree to which each of them is regulated by law. Viewed in the light of this question, a great contrast exists between these two kinds of transportation. The railways are regulated to a great extent while trucks and buses are not. The latter are practically free lances in the field of transportation. The rates and fares which a railway may charge are prescribed by law. Rate-making bodies of the various states and the Interstate Commerce Commission exercise the power of fixing, upon their own initiative or the complaint of shippers, the maximum and minimum rates which railroads may charge. On the other hand, trucks and buses in handling freight and passengers are subject to little regulation as to their charges. Any regulation of them is usually limited to the

extent that their rates and fares must at least exceed those of the railway. Usually there is no limitation at all to the maximum charges which they may exact. The charges of the truck are generally the result of bargaining with each shipper. Railway rates, however, are a matter of public record. They must be made available to shippers and cannot be changed without a prescribed procedure beforehand. Motor trucks, on the other hand, are not compelled to publish their rates. As a matter of fact, variation in their rates according to traffic conditions would, of itself, prevent effective publicity of them. In other words, the rate situation of the railway is fixed and inelastic, according to the dictates of law as exercised by legislatures and commissions, while the rates of the motor trucks are usually not rigid but are elastic enough to meet changes in traffic and other conditions.

The railways are subject to considerable regulation, through both statutes and commissions, with respect to labor. On the other hand, the operators of motor trucks are not subject to such restrictions. There is neither statute nor a commission, so far as the writer knows, designed to regulate the wages of the employees of motor-truck companies. Moreover, the financial arrangements of railways are subject to the close scrutiny of the Interstate Commerce Commis-

sion. They cannot issue securities of any appreciable amount without its consent. Their financial plans, in other words, must wait upon the approval or disapproval of public authority. On the other hand, motor trucks and other kinds of automotive transport do not suffer from any restrictions pertaining to their finances. One finds a great array of statutory laws and regulations by commissions for the alleged purpose of promoting public safety. Some of them, for instance, relate to car couplings, brakes, head-lights, and the size of cars. Others pertain to the inspection of equipment, such as the boilers of locomotives. But trucks and buses are not, to any appreciable extent, annoyed by such restrictions.

Lastly, the railway is legally regarded as a public carrier, while the truck is not. The railway must transport goods whenever they are offered; rain, snow, and other conflicting elements furnish no excuse. The motor truck, however, can choose the time when it will haul goods for others. Unfavorable elements may cause it to postpone the trip until another day. Further, the railway must transport practically all persons and commodities, but the truck may take only that traffic which it chooses. The result is that the truck practically never offers to carry the bulky and cheap commodities any appreciable distance, because the rates on such products are compara-

tively low, so low as to permit little profit from operation. It is quite willing, therefore, to leave such traffic to the railways. The truck prefers to take the cream of the traffic, that which has a high value in proportion to bulk and which can bear a high freight rate.[9] The number of tons of freight hauled by it is very small in comparison with that carried by the railway. But, as already indicated, the consequent loss of tonnage by the railway is not an accurate measure of its loss of actual revenue.

Certainly it would be the height of absurdity to attempt to ascertain which of the two carriers, the railway or the automotive, is the more efficient, if the one must submit to onerous and expensive regulation while the other goes scot-free. It is nothing to the credit of the truck and the bus that they are able to make encroachments upon railway traffic, if they are permitted to take

[9] According to a recent report of transportation on the state highway system of Connecticut, sixty-nine per cent of the total net tonnage of the trucks consisted of manufactured goods. "Of the materials hauled nine miles and less, gravel, sand, and stone are first in importance; in the ten- to nineteen-mile haul they rank third in importance, and for longer hauls they are not among the important commodities. Coal appears as an important commodity only in the shortest haul groups, groceries in all haul groups up to seventy miles, and gasoline among the commodities hauled all distances up to thirty miles. The commodities of greatest importance in the long haul groups are household goods (used), textiles, rubber tires, and crude rubber." Further, "of all package freight the motor truck carries over ninety per cent between points less than sixty miles apart." Bureau of Public Roads of U.S. Department of Agriculture and Connecticut State Highway Department, 1926, pp. 75, 76, 78.

only the most remunerative traffic and refuse the less profitable, and at the same time to enjoy other exemptions and special privileges.

Duplication of Facilities. Assuming that the relationship between automotive transport and the railway were made quite sound by compelling both of them to pay their own way and by regulating both of them in the same fashion, one should still question the desirability of permitting the automotive carrier and the railway to serve as competitors. If the railway has not reached the point of saturation, if it can handle extra traffic with little additional cost, it would be more economical for the railway to carry the entire traffic rather than divide it between two different transportation agencies. In other words, it would be more economical to support one means of transportation instead of two, in the rendition of a particular service. There is no railway in the Southwest, and very likely none west of the Mississippi River, which has yet reached the point of saturation. Nearly all the railways are still operating under a condition of decreasing cost. These roads would have a tremendous increase in gross revenue with very little extra expense if they carried the tonnage now transported by truck. Therefore as long as that condition prevails, it is to the economic interest of the public to permit the railway, which already occupies the

transportation field, to render the transportation service.

There is no doubt that one of the obstacles now preventing a decrease in passenger fares and freight rates is the loss of passenger traffic and freight tonnage to the automotive carriers. Since 1920 the railways have lost one-fourth of their total passenger business. If the railways had handled as much passenger business in 1924 as in 1920, their total revenues from it would have been $317,000,000 larger than they were. This amount exceeds the total cash dividends paid in any year from 1917 to 1924. The ton miles of motor vehicles in 1924 was thirty-six billions, or approximately one per cent of the ton miles of the railways.[10]

The tonnage carried by truck represents, remember, the most remunerative traffic and hence a heavy financial loss to the railway. If the railways had the present traffic of automotive carriers, in addition to their own, we should have immediately an economic justification for the reduction of rates and fares. Under the present condition there is little or no prospect for a general decline of such charges. On the contrary, their trend is upward, as attested by the recent request of the western railways for a five per cent increase in rates. One argument for this proposed advance

[10]Sources of such data are *Railway Age* and Bureau of Railway Economics.

was the loss of revenue due to automotive transport. It should be noted in this connection that in 1925, a time of general prosperity, the railways earned only about four per cent on the physical value of their property. Their freight traffic, measured in tons, exceeded that of any previous year. However, automotive vehicles made encroachments upon the most remunerative freight traffic and also upon the passenger traffic. Another way of describing the result caused by the loss of railway traffic to automotive carriers is that the railway must make up for its loss to motor carriers by charging higher rates on bulky farm products for long shipments, commodities which cannot be profitably carried over long distances by the motor trucks. It means, in other words, higher freight rates on cotton, grain, livestock, and other farm products which move from the interior of the country to the ports or the great primary markets. There is no denying the fact that the public pays dearly for the loss of traffic to the railway on account of automotive transportation. We are now supporting two means of transportation when one would suffice. The public pays.

Automotive transport should be encouraged, of course, as a feeder of the railway. It undoubtedly will be the means of connecting the outlying districts and the railway, and therefore of acting

as a feeder for the latter. From this standpoint the truck and bus are allies of the railroad. The automotive carrier and the railway, if running at right angles to each other, would furnish an admirable system of transportation, one which has not been attained thus far.

OVEREMPHASIS OF MEDIA AND NEGLECT OF FUNCTIONS

More attention has been devoted to the agencies of marketing than to the functions which they perform. In the past those who would improve the marketing system usually sought to eliminate the so-called middleman. They pictured him as a parasite—one who exacts toll without the rendition of service. The inference was that direct sale by the producer to the consumer would enable both of them, especially the former, to partake of the erstwhile "profit" of the middleman. Even today would-be reformers of marketing methods often resort to the same prejudice against the middleman and his profit. The promoter of cooperative marketing still appeals to farmers in terms of eliminating the local buyer, the wholesaler, the broker, and others; and therefore of taking the "margins" which the latter now receive. He seldom presents and advocates the association as a means of performing certain functions more efficiently than under the ortho-

dox system. The eradication of the middleman, according to his propaganda, constitutes the key to success. The farmer ordinarily fails to realize that the important question is: Who can and will perform the services of marketing most economically and reasonably? Many consumers' cooperative societies have ended in failure because the members expected too much from the adoption of a different instrumentality for selling goods. The well-nigh universal failure of producers' cooperative organizations may be explained by the attribution of undue importance to the substitution of their own organization for that of the enterpriser. The emphasis of machinery rather than functions accounts for the mushroom growth of various cooperative companies and the failure of most of them.

Manufacturers that sell directly to the consumer exploit the fetish of eliminating the middleman and his profit. They seek through their salesmen and advertising to create the belief that sales direct from the manufacturer to user enable them to sell at low prices.

Even the government has been mistaken in the desirability of merely eradicating the orthodox middleman. National legislators and others once thought that the parcel post would furnish a means of bringing greater financial returns to the farmer and at the same time of reducing the cost

of living. But witness its failure to connect the producer and consumer and to "save the profit" of various dealers. This experience has caused some people to realize, as never before, that the merits of a new system of marketing depend upon its efficiency in rendering essential services and not simply in its displacement of another medium.

Fortunately, however, the marketing functions receive more attention now than formerly. Some of the large cooperative companies, especially those devoted to perishable products, appeal to farmers on the basis of their ability to render services. Some of them claim that they can through their representatives ascertain the conditions of the market throughout the country and direct the distribution of produce in various cities and towns so as to derive the utmost in financial returns. They compare their methods and results with the procedure of the orthodox system which causes gluts and undue losses. Likewise these companies point to the employment of uniform grades and containers, better storage, and the advantageous securement of capital for their members. They stress their ability to recover claims from railways more quickly and completely and thus reduce the cost of transportation; and to provide insurance more effectively with the consequent reduction of risk. In this fashion their arguments are extended to include the other

marketing functions. The success of such companies, by admission, depends upon their efficiency in marketing and not solely in exterminating the orthodox middleman. The members realize that they are their own middleman through collective action and that their success does not depend primarily upon this fact but upon the efficiency of their organization.

The government is doing its part in shifting emphasis from machinery to function. The Department of Agriculture seeks better criteria for grading farm products, and the Department of Commerce encourages manufacturers to standardize and reduce the number and variety of sizes, colors, etc., in order to decrease the cost of making and marketing goods. Various reports of the government, also, abound with illustrations of inefficiency in the disposal of commodities and indicate the necessity, in effecting improvements, of keeping in mind the actual function which is to be performed.[11]

Any change in the methods of selling goods must justify itself, if at all, in a more effective performance of the functions and not merely in changing the machinery. Any other procedure loses sight of the necessity of rendering the essential services at the least cost. Media are incidental,

[11] See, for example, the report of the Federal Trade Commission on the *Wholesale Marketing of Food, 1919.*

while the functions are fundamental. Undue emphasis of the former, as in the past, leads to confusion and inefficiency.

CHAPTER IV

SOCIAL COST OF ADVERTISING

ADVERTISING, in its development, has brought about a change in the basis of competition. It should be carefully studied from the point of view of public good. It is not subject to the same criticisms as salesmanship because of the difference in the extent to which each may be used excessively. A survey of the social cost of advertising must, indeed, take a number of points into consideration—rate of turnover, elasticity of demand, regularity of sales, competition, cost of salesmanship, laws of cost, price policies, and middlemen.

DEVELOPMENT OF ADVERTISING

Competition may be manifest through price, quality, and service, and the agencies which give expression to it are salesmanship and advertising. Until the twentieth century practically all competition was in the name of price, and therefore the entrepreneur centered his attention largely upon the reduction of manufacturing costs so as

to undersell his competitor or at least meet his prices. Rivalry of this sort was necessarily strenuous and often cut-throat in nature, and the battle was fought by salesmen. It was intensified, especially in the case of the manufacturer, by the increasing extent to which the modern system of production necessitated the use of large and fixed units of capital, and hence by the greater operation of the law of decreasing cost. The depressions of the 'eighties and 'nineties, together with a falling price level, further sharpened the price weapons and accentuated the economic grief of the business man. The seller, particularly if not in personal contact with consumers, was anxious to shift the basis of competition from price to alleged quality or service. He desired to break away from his dependence on price, and therefore on the bargain-seeking buyer, as a method for the disposal of goods. In short, he wished to identify, differentiate, and glorify his particular product in the minds of the consumers in such a way as to make them insist upon his product, regardless of price. He wanted to lift his product out of the slough of price warfare and place it upon a plane of distinction where its lauded virtues and not primarily its price would attract the public. Trade-marking and advertising furnished the means for the attainment of this goal.

Moreover, the spread of the railway network

and other means of transportation, the growth of communication facilities, together with low costs for their services, made a national market possible and thus invited a large-scale method of selling. National media and improvements in the arts of printing, photography, and reproduction afforded the machinery for the advertising campaign. In addition, the close of the 'nineties marked the beginning of a rising price level, the revival of prosperity, and a greater economic well-being, especially among the agricultural class. A few large corporations, particularly the tobacco and other so-called trusts that sought to exterminate competitors, had demonstrated the power of advertising as a weapon of both offense and defense. The private brands of wholesalers encouraged manufacturers to strengthen the national demand for their products. All of these factors—the wider operation of the law of decreasing cost, overproduction, development of a national market, adequate technique, a greater economic well-being, the demonstration of the efficiency of advertising by a few corporations, and the establishment of private brands by the jobber—hastened the growth of modern advertising. The first two intensified price competition and the last five suggested advertising as a way out—the means for changing the basis of competition.

Modern advertising is one of the outstanding economic developments of the first quarter of the twentieth century. From small and spasmodic beginnings, it has developed into the great and business-like profession of today. One billion dollars annually represents approximately the financial outlay for this means of selling.

Moreover, the promotion of advertising by newspapers and magazines, which largely control the channels of publicity despite the recent heavy inroads by the radio, promises a further increase in its amount and a wider variation in its uses. A common policy of publications which is worth noting specially is their allowance of the so-called "agency commission." This amounts as a rule to fifteen per cent of the card rate for advertising space and is given to agents who place the advertising but not to the advertiser himself.[1] The result is, therefore, that the advertising agency makes its money not by a fee paid to it by the advertiser for planning and supervising his campaign, but by this commission from the publication. This commission, of course, is not a direct payment, but is a discount which the agency takes in paying the bills for space, the agency in turn billing the advertiser at the full card rate.

[1]In some cases the advertiser either directly or indirectly receives part of this commission as a rebate,—a practice, however, which is considered unethical and which reputable publications seek to prevent.

Under such conditions the agency naturally is interested in seeing the advertiser take more and more space. Of course, an advertising agent may honestly try to work for the interest of his clients and therefore not recommend additional space unless he really believes it is to their advantage. The agent, however, cannot always be as honest as he thinks he is. There is a strong psychological influence at work which tends to convince him that the welfare of his client demands more space, whereas a totally unprejudiced observer might conclude that this particular client was doing all or even more advertising than he should.

CHANGE IN THE BASIS OF COMPETITION

The basis of competition has shifted largely from the making of goods at the least cost to the making of the greatest appeal, and the consequent selling of the goods more or less regardless of cost. The physical operation of making has become subordinate to the psychological aspect of selling. Price has been supplanted by real or alleged quality and service as a basis of rivalry. It is a situation that makers of competitive goods must face if they hope to hold their own in the market or to increase their patronage. Business men are in the midst of a warfare as severe, though of a different kind, as that which prevailed in the days of price competition. And it is

a struggle which ends just as disastrously as ever, if the would-be competitor of today is unwilling or unable to pour out money for advertising or if he fails to advertise effectively.

INAPPLICABILITY OF THE SAME CRITICISMS TO SALESMANSHIP AS TO ADVERTISING

At the beginning, let it be distinctly understood that a criticism of advertising is not necessarily a criticism of the whole competitive system. An adverse opinion of advertising, for example, does not apply necessarily to salesmanship. The latter furnishes an immediate check upon itself while the former usually does not. The sales of each person are an established fact, and the profit derived from them can be compared readily with the expense of the salesman. This cannot be done to any appreciable degree with respect to much of present-day advertising, for the returns from it, if any, are often not expected to be realized save in the remote future. If, at some later date, it develops that the returns do not justify the expenditure, there is nothing that can be done about it; the money has already been spent. It should be borne in mind, in this connection, that much advertising is "institutional," or designed for good-will, the results of which are always difficult to measure and may not be manifest for several years. It also happens, of course,

that an advertiser sometimes loses heart during a campaign which might eventually have produced results through its cumulative effect, and discontinues his advertising too soon, with consequent waste.

A considerable proportion of our population, those who live in out of the way places, are practically inaccessible to salesmen. Physical barriers and the expense of travel make personal solicitation prohibitive and inadvisable, if not impossible. The waste of competition, insofar as salesmen are concerned, does not apply, therefore, to millions of people who live in this country. On the other hand, advertising exerts its influence upon practically the entire population. It appears in the papers and other mail matter of the mountaineer and pioneer. Their visits to the nearby village or town bring them into contact with advertisements. Even the illiterate are subject to the influence of trade-marks and pictures. The greater accessibility of people to advertising than to salesmen helps to explain why the former is more likely to be carried to excess than the latter.

The people accessible both to salesmen and to advertising cannot be solicited to the same degree by these two methods of selling. Salesmanship demands personal contact and an interview with

the prospective purchaser. It may quickly reach the point of saturation, even of nauseation, because the time and patience of every buyer have definite limits. The irritation and disgust of the prospect may prevent even an interview. The merchant may refuse to grant an audience and the housewife can decline to answer the doorbell. Personal contacts with buyers, to repeat, are necessarily limited, and therefore an excessive number of salesmen may easily defeat their own purpose. Here it should again be noted that the efforts of salesmen, in contrast with advertising, may be definitely appraised in terms of sales and expenses. Advertising, however, is impersonal and demands little or no time of the prospective buyer. His consent to an audience is not necessary. An advertisement may appear in every possible medium and not cause any direct personal inconvenience to anyone.[2] Its effect on sales, one should recall, cannot always be measured. Advertising has only one definite limit—the amount of money which a concern wishes to spend in this fashion. The appropriation for salesmen, to repeat, finds a check in the time and patience of buyers; and its effect, in terms of sales and expense, can be definitely gauged.

[2] It may, of course, be a nuisance as in the case of billboards erected in such spots as to spoil an otherwise good view. See chapter v.

COST OF ADVERTISING AND POINT OF VIEW

The most usual question that arises in criticizing advertising is: Who pays the cost? The answer depends upon the point of view—the individualistic or the social. The one is that of the business man, and the other that of society; hence they may lead to different conclusions. For example, the greater output and sales of one manufacturer, due to advertising, may make possible lower costs of making and selling his products and therefore a lower price to the public. The defenders of advertising like to parade such an illustration, together with the deduction that the public derives a benefit. This conclusion does not necessarily follow at all. The larger sales of one manufacturer lead, very often, to smaller sales of his competitors and hence to greater costs of making and selling their products. They may attempt to shift the extra expense to the consumer in the form of higher prices; or their profit may be reduced or eliminated. Whatever these possibilities may be, the important fact is that the social cost—land, labor, capital, and enterprise—necessary to make their products becomes greater, and this additional cost must be borne directly or indirectly by society. More of the factors of production are necessary than previously to accomplish a particular result. Therefore the enormous increase of

sales of one manufacturer and the consequent reduction of his costs and prices may bring the opposite results to his competitors and thus, taken as a whole, constitute a social burden. The contrast between these two points of view deserves much emphasis, for the failure to recognize it leads to many fallacies concerning the incidence of the cost of advertising. The author has before him a collection of testimony of various manufacturers to the effect that advertising has made possible either the sale of better products at the same prices or the same products at lower prices. The inference is that the consumer does not pay the cost of their advertising. The social standpoint and the consequent realization of the likely effect of such advertising on competitors or other industries indicate the absurdity of such a contention.

The final and sound test as to who pays the cost of advertising, to repeat, must be from the standpoint of society. Whether or not the consumer bears directly the cost of advertising a specific product is not an adequate answer. Do consumers *as a whole* pay more or less for what they buy? That is the question. Let us consider the problem from various standpoints.

Rate of Turnover. One of the outstanding claims for advertising is that it increases the rate of turnover by enabling a concern to sell a larger

quantity of goods either by winning the customers of competitors or by tapping new sources of demand. The inferences are a smaller expense per unit of business, a lower price to the purchaser, and therefore the promotion of the public welfare. This contention demands further analysis. Suppose that larger sales by one concern cause smaller sales by its competitors and hence greater costs and perhaps higher prices. That all consumers can, if they like, buy the advertised commodity at a lower price than previously does not prove that the social welfare is thereby promoted. The fact remains that many still prefer competing brands which may have become more expensive because a larger quantity of the factors of production is required to produce them. Any public gain, to say the least, is highly questionable.

Advertising agents and other defenders of advertising take pride in pointing out, however, that the increase of sales of one concern may lead to the greater sales of competing brands and even of substitutes. For instance, the advertising of a specific brand of vacuum cleaner, it is said, helps to sell other brands by introducing the invention and also to increase the sale of substitutes, as brooms, floor mops, and sweepers, by educating people as to cleanliness. The advertising specialist explains that each member of these industries devoted to cleanliness can make and sell a greater

quantity of products at a lower cost and therefore promote economic welfare.[3] Other companies, however, are likely to spring up so that the business of each concern will diminish, and therefore stimulate additional advertising, increase cost, and raise prices. Witness the multiplication of companies engaged in the manufacture of vacuum cleaners. The pronounced success of a few of them tempted others to enter the same field.

But granting greater sales to each member of an industry and hence lower costs, the advantage to the public does not necessarily follow. The increase of business within a particular industry cannot include a relatively large number of industries because of the limited purchasing power of consumers. The increase of activity in one industry is apt to be at the expense of another, though unrelated, industry. Greater sales and lower costs in the one may mean fewer sales and higher costs in the other, and consequently no advantage to society.

A possible defense of this situation is that the rise of one industry and the decline of another means a better satisfaction of human wants. However, the weight of this argument depends upon the nature and cause of the shift in con-

[3]One answer to this contention is that the manufacturer may not transfer any saving to the consumer in the form of lower prices; in this event, though the economy in production continues, it is not translated into the distribution of wealth. This aspect of advertising is discussed in chapter VI.

sumption. Another sort of rebuttal might be that the decline in another industry is not inevitable —that the same or a greater volume of every commodity can be sold. Such a contention must assume one of two things—either greater earnings, or an encroachment upon savings. The replies to these arguments will be considered later.

The foregoing discussion pertains to the rate of turnover as affected by the volume of sales. One should bear in mind that the rate is mutually determined by sales of goods and stock on hand. A larger stock, sales remaining the same, decreases the rate of turnover and, by inference, increases the cost per unit of business and detracts from the public welfare. Advertising, accompanied necessarily by identification and differentiation, increases the number of competing brands placed on the market by manufacturers, jobbers, and retailers. Many or all of these brands may be purchased to such an extent by the public as to force the merchant to handle them and thus augment his stock of goods appreciably. Various kinds of soap, cigarettes, and other articles by the score could be cited as illustrations. But this tendency does not apply to fabricated products only. Commodities once sold mostly in bulk are now packaged and paraded as different brands. The merchant, to repeat, in catering to the wants of his customers must carry many brands of the

same article. This increases the stock of goods and to that extent reduces the rate of turnover.

Elasticity of Demand. One purpose of advertising, in terms of economics, is to convert an elastic demand for a product into an inelastic demand and hence to raise its price sufficiently to cover the expense of advertising.[4] A higher price may be borne by the consumer, while the economic cost of producing the article may be more, less, or the same as previously. But this policy cannot be pursued successfully by all. Success to one company may react to the disadvantage of its competitors by reducing their sales and increasing their costs. This result would clearly be inimical to public welfare. Further, if all competitors advertise effectively and thus create an inelastic demand for their products, the results are an acquisitive gain to them in higher prices but a consequent loss to society.[5]

Regularity of Sales. Advertising may be used to further the regularity of sales of a particular concern. It may help to avoid extremes in business as between periods of prosperity and depression and as between seasons of the same year. The extent to which this can be done varies with the time, the place, and the commodity. If, for in-

[4] See pp. 174-8.

[5] For a further discussion of the acquisitive aspects of advertising, see chapter VI, pp. 174-80.

stance, the article represents economy, then to advertise it less in boom years and more in the lean lessens the crest of sales and raises the trough. If, on the other hand, the commodity is a luxury, a similar variation in the amount of advertising would not produce results as favorable. For example, advertising could not appreciably stimulate the sale of machinery when factories are idle nor the sale of ice during cold weather. In any instance the expense of the advertising might offset the advantage of greater regularity.

Any advertising which promotes the regularity of sales of a product is conducive to the maximum utilization of the factors of production and the diminution of cost of the manufacturer, and therefore should enable him to charge a lower price. Most advertising, however, has accentuated the irregularity of sales, being employed the most when business is booming, and the least when business is dragging. The maximum of advertising prevailed during the war boom and the minimum during the subsequent depression; profit and advertising expanded and contracted together. The maximum of advertising when sales are greatest and the minimum when they are the least exaggerates the irregularity of sales and causes the cost of making and selling goods to be

greater. The consumer, of course, pays directly or indirectly for this additional cost.

However, a few concerns—and comparatively speaking, they are the exceptions—have promoted the regularity of their sales and reduced their costs of making and selling goods. In the light of this limited accomplishment, the defenders of advertising have concluded that this art may become the instrument for regularizing economic activity in general. The fallacy of such a deduction lies mainly in the application to all industries of what may be true of a specific enterprise.

The income of people varies as between years and as between parts of the same year. Consequently the totality of sales must vary because the total income fluctuates. One concern by regularizing its business through advertising merely accentuates the irregularity of sales of others. To this extent irregularity may be shifted by one concern or industry to another; but to recapitulate, from the standpoint of all economic activity, total sales cannot be made regular since the income of people, which is the constant that sales cannot permanently exceed, varies appreciably.

It is the present attempt of some companies to maintain sales at the same volume and perhaps to increase them steadily that accounts for much of the waste of advertising. Since not all concerns

can succeed in doing this so long as spending power varies, they wage a hopeless and relentless advertising war to determine which ones will succeed. Those that spend freely and effectively for advertising may win and the others suffer the consequences. Universal regularity, to repeat, is unattainable in our present economic society, and expenditures for advertising which fly in the face of this fact are in themselves wasteful and in addition make the sales of most concerns more irregular than previously. One concern or one industry may attain regularity, but other concerns and industries cannot. Though all competitors within an industry may advertise and attain some measure of regularity, the result would be to the disadvantage of other industries from which spending power is subtracted.

The only way to have regularity of sales for all concerns, though temporarily, with income vacillating as it does, would be to persuade people to dissipate their savings and even to borrow—an evil far greater than the irregularity of sales.

Fashion, which is ever extending its influence to additional kinds of goods, increases the irregularity of sales. The sale of an article subject to fashion may increase suddenly and enormously and then decrease in the same manner. Sudden rises and declines in the marketing of goods mean greater costs, for which society must pay. Adver-

tising, serving as the handmaid of fashion, may be justly charged with a part of the responsibility for this situation.

Advertising also helps to make hurried, tremendous, and often unwarranted changes in the consumption of goods in which style and fashion are absent or insignificant. Demand may shift suddenly from one brand to another or from one industry to another, not primarily because of price appeal but because of the modification in the psychology of people. Some of the favorite brands of ten years ago and the companies that manufactured them have disappeared. What has happened to their factories—their equipment and their labor force? Maladjustment of the factors of production is self-evident.

Today manufacturers do not try to make what people have decided they want, but rather to produce something and then try to make people like it. Usually they succeed in realizing large initial sales at least; but additional business may not follow, especially if the advertising is not persistent. Witness the failure of "Klim"—though tremendously successful at first. There was a great advertising campaign in behalf of this commodity, a large output of it, and an attempt to force it on the public—with success in the beginning—that ended in a miserable fiasco. The result was a partial waste of the factors of

production devoted to making and selling the product. It would have been better to use an older but more efficient method of marketing, namely, to proceed on a small scale and over a considerable period of time in order first to test the public demand before launching a national campaign. The path of economic progress, to be sure, is necessarily strewn with waste. But useless expenditure on a national scale, before any definite demonstration of success in a smaller field, deserves condemnation.

Competition. The plane of rivalry has shifted to a great extent from price to psychic atmosphere. That a product sells itself through its own qualities and price to the consumer is not as true now as formerly. Mr. Edison, as the one who had invented and improved the phonograph, once thought that it should sell itself. His competitors advertised and finally the Edison company, in self-defense, had to resort to the same policy.

Advertising discovers new wants and develops old ones. Today, thanks to its power, there are more things that the consumer thinks he wants in proportion to his ability to buy than ever before. This situation intensifies the rivalry of advertisers in going after his dollar. In general, only those who make an effective appeal continually can sell constantly. There is an incessant psycho-

logical bombardment of the consumer to make him spend.

The strongest rivalry between some competitors is in advertising—in trying to make the greatest psychological appeal to consumers. A growing proportion of all competitors are advertising, for, to hold their own, they must play the game as it is, not as they would have it. Advertising by one concern may cause its competitors, in self-defense, to follow its example. They can, very likely, win back lost patronage and perhaps acquire some of the customers of the first advertiser. The latter, seeing its efforts partly nullified, unleashes a second campaign, the competitors again follow suit, and thus the vicious circle repeats itself. They fight over a comparatively fixed totality of sales, with action and reaction, plunging ahead and falling behind, taking the offensive now and the defensive later. Advertising agents and various media, such as newspapers and magazines, together with others who derive a livelihood from the advertising profession, contribute to bring about this situation. They persuade one concern to advertise and then practically compel its competitors, in self-defense, to do likewise. Of the latter it is literally true that under such circumstances "it pays to advertise"; and thus the merry round of advertising repeats

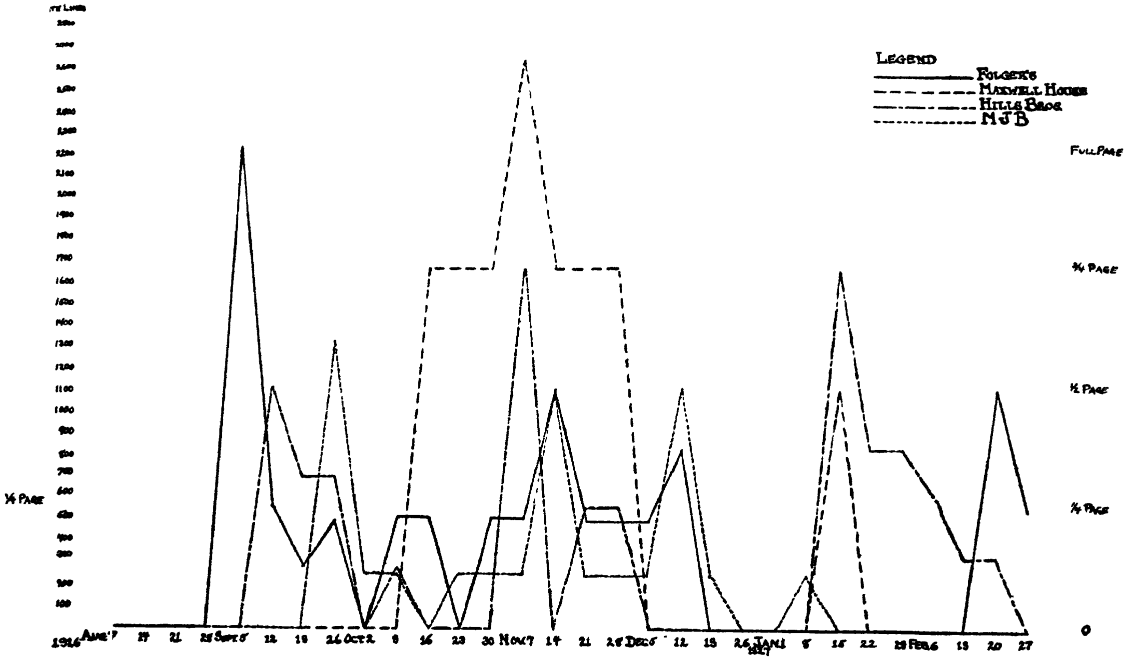
itself, thanks partly to those who have "advertising services" to sell.

One has only casually to notice the advertisements—their timing, message, and quantity—to find illustrations. The cyclical campaigns in behalf of shaving cream, tooth paste, cosmetics, coffee, and other commodities may be cited. Competitive advertising of the same sort prevails in reference to remote substitutes, as coffee and postum or the phonograph and radio. In the end, the chief change is an additional expense which will be passed on, if possible, to the consumer.

Competitive advertising is at its worst when it pertains to the brands of both manufacturers and jobbers. The accompanying chart represents the advertisements of various brands of coffee that appeared in a daily newspaper. It covers the period, by weeks, from August 7, 1926, to February 27, 1927. Note the order with which the rival advertisements appeared—the cycle of offensive and defensive campaigns. Each is timed to combat the effect of the other.[6]

Competition in advertising different brands is the acme of economic waste. It is a burden borne directly by the consumer in many instances. The Joint Commission of Agricultural Inquiry, in its

[6]The advertisements appeared in *The Daily Oklahoman*. The author wishes to express his appreciation of the assistance of Mr. J. K. Wilkinson, one of his students, in the preparation of this chart.



LEGEND
FOLGER'S
MAXWELL HOUSE
HILLS BROS
MJB
FULL PAGE
¾ PAGE
½ PAGE
¼ PAGE
0
¼ PAGE
1926 AUG 7 14 21 28 SEPT 5 12 19 26 OCT 2 9 16 23 30 NOV 7 14 21 28 DEC 5 12 19 26 JAN 1 1927 8 15 22 29 FEB 6 13 20 27

study of the marketing of various products, ascertained the proportion of the consumer's dollar absorbed by advertising. It stated, for example: "That it should cost 15.37 cents of the consumer's dollar in 1921 for the manufacturer to advertise and sell rolled oats in packages would indicate that the consumer is paying for more competition between trade-marked brands than the value of the commodity would justify." Of this amount 8.64 cents was for advertising.[7]

This rivalry, not in price nor even in the improvement of quality or service to any appreciable degree, but in making people believe that one article is the best, prevails not only between competitors within an industry but between industries. One group of competitors in an effort to promote economy and effectiveness, may advertise collectively. Today, for instance, we are urged to eat more bread, raisins, and ice-cream, and to drink more coffee, without mention of individual producers of these commodities. Human wants are so multiplied in proportion to spending power that even industries are becoming pitted against each other in their efforts to maintain or stimulate their trade.

Another aspect of competitive advertising and its attendant waste is the higher quality as well

[7] *Marketing and Distribution*, Part IV, House Report No. 408, 67th Cong., 1st Sess., p. 212.

as the greater quantity of advertisements which are now necessary to attract attention. The multiplicity and variety of advertisements are a great strain on the mental faculties. Each one of a hundred, appearing perhaps in a single magazine, is seeking the attention of the reader. The consequence is that none of them may succeed. To paraphrase the philosophy of Hegel, advertising by everybody may mean advertising by nobody. Hence there is a resultant rivalry in advertising by using more space and finer technique. Each advertisement is designed to outdo and overshadow the others in commanding the attention of the reader. One manifestation of this situation is the increasing extent to which psychology is employed in preparing advertisements and selecting the media. Tests are even made to ascertain the best "locations," as in a magazine, from the standpoint of getting and keeping the attention. The most desirable locations, as the back cover, are by far the most expensive; and they are in demand by advertisers as one way of attaining effectiveness.

At present, the nullifying and deadening effect of many advertisements encourages, to repeat, a greater quantity and finer quality of advertising. But the attempt thus to insure effectiveness to each campaign—to lift it out of the mediocre—is not confined to a few companies. The tendency is

towards a universal increase in the appropriations for advertising. Some concerns make splurges in their advertising to attract attention, and thus set the pace which others follow; and the vicious circle repeats itself. Today advertising faces two alternatives—either no response because of the widespread excesses in its use, or else unbelievable expenditures by comparatively few companies. In either case an economic burden of undue proportions is imposed upon society. It is a cost which apparently knows no metes or bounds because, as explained previously, the financial result of advertising cannot be strictly measured, and the consent of the individual is not a prerequisite to the amount and kind of advertising presented to him.

Cost of Salesmanship. In the case of some commodities the cost of advertising is completely met by the resultant saving in salesmen's expenses; in fact, it may conceivably effect such an economy as to make possible lower prices to the consumer. Salesmen of a lower grade may suffice and each one of them may sell more, all because the advertising has already introduced and partly sold the commodity to the buyer.

However, this decrease in selling expense has been the subject of grossly exaggerated claims. Advertising, indeed, has brought about a situation which produces the opposite result. Its re-

peated psychological assaults upon the consumer have now put him on the defensive. By his assumption of a waiting, hesitating, attitude he has become passive, instead of active. He has been shown more ways to spend his money and therefore has more unsatisfied wants. Consequently there is greater rivalry for the consumer's dollar, both among sellers within a certain industry and among industries, for his total purchasing power is more or less fixed. This situation intensifies the necessity of having more and better salesmen. The total number of them, it appears, has kept pace with the volume of sales, and in general the quality of salesmanship has steadily advanced. More money is spent in hiring and training salesmen. They are schooled in the technique of salesmanship and live in an atmosphere of aggressiveness, all in keeping with the exigencies created by advertising.

Further, a more highly developed if perhaps meaningless eloquence is required to make prices appear incidental to the prospective buyer—in other words, to sell in terms of quality and service. A minimum of sales effort is necessary to dispose of those goods, like cotton and wheat, which are graded but not differentiated. Sales of these commodities are made on the basis of price and according to standard grades. There is no puffing and blowing and gabbing about points of su-

periority, for these goods speak for themselves. But the successful selling of many differentiated articles today does not depend on price but rather on effusive and expensive advertising and salesmanship.

The "pushing" of an advertised product, and therefore the realization of sales from an expensive advertising campaign, is receiving more and more emphasis. The speciality salesman, preceding and following the wake of an advertising campaign, is an apt illustration of this tendency. Anyone connected with merchandising frequently hears of the necessity of coordinating salesmanship and advertising, for the lesson has been learned that, as a rule, advertising alone will not suffice. Advertising may introduce a product, even arouse a desire for it, but usually the final touch which closes the transaction must come from the salesman. Much advertising, in fact, has been wasted because of unwarranted reliance upon its power.

The changes effected by advertising have brought salesmen to the fore and to that extent have increased rather than decreased the amount spent for salesmanship in comparsion with the volume of sales. Only isolated illustrations exist, to repeat, to show that advertising has reduced selling expense.

Moreover, there is always this to be borne in

mind: that greater sales for one advertiser and therefore a saving in his salesmen's expenses may cause competitors to suffer the opposite effect. The latter, in turn, may later reduce their cost of salesmanship through greater advertising, and indirectly increase the expenses of the former. When disciples of advertising refer to the reduction of selling expenses by advertising, they have in mind only individual concerns and a definite period of time. The truly social view must take in all business activity as affected by advertising, regardless of time or place.

It is likely that in retailing as a whole there has been a real saving in the expenses of salesmen. This can be ascribed to advertising, and also to other changes in the technique of marketing goods. The efficient arrangement of a store, its specialization, and a narrow margin of profit may enable a low-grade clerk to sell a greater amount of goods. The sale of only one article, as hosiery, in a large department store, for instance, requires but a small measure of ability and hence little training. But it should be pointed out in this connection that the five-and-ten-cent stores have a large turnover and a small selling expense, and yet they deal in unadvertised goods almost exclusively. Even these stores as such advertise to a very limited extent. Their merchandise is sold quickly and easily because of price appeal.

Laws of Cost. According to the claims of its zealous defenders, advertising enables the manufacturer and others to operate under conditions of decreasing cost. Talks and writings on advertising abound with illustrations of various concerns which have reduced their costs per unit because advertising increased their volume of business. It is the greatest force yet employed for quickly developing a national, even an international market, for a specific product. By creating a national market, advertising promotes large-scale production, the division of labor, and other economies which ordinarily accompany an enlargement of the market. In short, it may make possible the complete and efficient utilization of the factors of production of an individual concern.

In the making of goods, decreasing cost is most likely to operate in those businesses which require large units of capital. It prevails until offset by the greater difficulties of management; and this occurs sooner in some industries than in others, depending upon the law of balanced returns. In the selling of goods there is also a decided tendency, with some concerns, for decreasing cost to operate in an analogous manner. An effective advertising campaign, national in scope, requires a large initial expenditure. The distribution of this outlay over a larger volume of sales means a

lower cost of advertising per unit,—in other words, decreasing cost in the field of selling. This situation is plainly similar to large fixed units of capital and the consequent decreasing cost as the volume of output becomes greater.

But the claim that advertising brings the law of decreasing cost into operation demands close scrutiny from the social standpoint. The weakness of the claim lies essentially in the fact that the law applies solely to a specific concern. One manufacturer, or merchant, through liberal and effective advertising, may greatly augment his sales, and hence diminish the selling expense per unit. Also, if his business is one of large and fixed units of capital, the manufacturing expense per unit may be lessened because of the large output. However, competitors are apt to suffer a diminution of sales and an increase of expenses per unit of business. They try to pass their increased costs to consumers by charging higher prices. The entire industry of which they are a part may be less efficient than previously, though the one particular concern may be more efficient.

Granting the unusual situation of an increase of sales by all members of a certain industry, one may then question its effect on the costs of other industries. The soundness of the criticism depends largely on the various laws of cost in different fields of business activity. A shift of patron-

age from an industry of decreasing cost to one of increasing cost is clearly to the disadvantage of the public. In general, anything which develops the extractive industries and consequently intensifies the law of increasing cost may be disadvantageous. On the other hand, a shift of patronage in the opposite direction would be favorable from the public standpoint. A disadvantage to the public may arise in changing consumption from commodities produced at decreasing cost to those made at constant cost. From the standpoint solely of cost, the substitution of cigars for cigarettes might be socially undesirable. A change contrariwise would produce the opposite results. The shift in patronage may be from one industry to another, both with the same laws of costs, as from railways to automotive transportation. The result would be the retardation in the operation of the law of decreasing cost and consequently an increase in the expense of transportation or the prevention of a further decrease. The railway particularly is subject to this law and hence would suffer a higher cost of operation.

Price Policies. A growing proportion of advertisers are selling their products at prices higher than the general market price. This may signify a greater cost of production, a larger profit, or both. An increase either of economic cost or of price is clearly contrary to the public welfare.

The other price levels—at or below the regular market price—may appear to confer benefit upon the consumer. But they do not necessarily mean a net social gain, for more actual land, labor, capital, and enterprise may be used in selling the goods, and competitors may be affected adversely. Likewise, the maintenance of the re-sale prices of an advertised product by the manufacturer does not reveal how costs have been affected either in his factory or in the plants of his competitors. Similar statements would apply to other price policies. That advertising may pay for itself from the standpoint of the individual concern and that it necessitates no additional charge to the consumer of the particular product are insufficient criteria in determining the social cost. Acquisitive points of view will not suffice. The final analysis should always consider at least two other possibilities. First, there may be an additional social cost—wood pulp, labor, etc.—in selling the particular commodity; and, second, any price policy successfully exploited by one company is apt to react unfavorably on other concerns and increase their cost to the disadvantage of society.[8]

Middlemen. The success or failure of the manufacturer in forcing middlemen to share a portion or all of his expense of advertising by reducing

[8] Chapter VI contains a discussion of the price policies of advertisers from an acquisitive point of view.

their margin of profit is inconsequential in an analysis of the cost of advertising from the social standpoint. The same statement applies to the efforts of the jobber to reduce the margin of profit which retailers receive on his private brands. Answers to these questions would reveal, at most, the incidence of the cost of advertising from an acquisitive standpoint. Whether or not advertising affects the amount of land, labor, capital, and enterprise which is necessary to produce goods is the predominant consideration from the point of view of public welfare.

CONCLUSION

The shift in the basis of competition from price to quality and service discourages economy in production. Today many manufacturers think less of making products economically and more of selling them effectively. Factory costs inevitably receive less attention since a lower price is now of less importance in selling commodities. On the other hand, the importance of marketing stimulates excessive expenditures for advertising and salesmen, especially the former, much of which is wasted. Less emphasis upon efficiency in manufacture and a greater expenditure for advertising to create psychological atmosphere, augment the cost of goods. Of these two factors the waste in

advertising as presented in this chapter is, by far, the more significant. It goes a long way toward explaining the fact that the proportion of the consumer's dollar which defrays the cost of marketing is high and continues to rise.

CHAPTER V

THE UTILITY OF ADVERTISING

ADVERTISING may be criticized from two standpoints—cost and utility. The preceding chapter considered its cost from the social point of view. An appraisal of advertising from the standpoint of utility is the object of the present chapter.

BETTER SATISFACTION OF HUMAN WANTS

One of the foremost alleged benefits of advertising is its promotion of a better satisfaction of human wants. Advertising, it is claimed, has aroused new wants, stimulated old ones, and facilitated the means for their fulfilment—in short, it has raised the standard of living and thus has fostered the public welfare. The merits of these claims demand consideration.

Choice in Consumption. To a certain extent advertising increases the ability of the consumer to exercise choice by acquainting him with various kinds of each commodity. A number of brands, each with its distinctive attributes, afford the in-

dividual a range of choice in deciding what to buy. In other words, the consumer today purchases the differentiated article of a certain manufacturer and not merely the article itself. It is pointed out, moreover, that some advertisers suggest tests to the consumer which will enable him to ascertain the qualities of the article and therefore to make an intelligent decision.

But the range of choice which advertising affords is decidedly limited. Some advertisements consist only of fancy pictures and boastful generalities, and really signify nothing more than that certain brands are in existence,—something that the consumer already knows. Do the advertisers of composition and other kinds of roofing material furnish scientific tests which enable the prospective purchaser to make an intelligent choice? Secondly, alleged points of superiority of an article may be only "selling points" magnified for the sake of differentiating it. The consumer may come to rely upon these points rather than upon his own judgment. In this connection one should remember that practically every advertisement exaggerates to some degree either by word or picture. What are the real merits of "doctored" gasoline which, according to the advertisements, removes carbon? A third limitation is that most consumers are largely helpless, though unconsciously, in deciding what they will buy. They are

the victims of suggestion and other psychological tricks which the advertiser employs. Clever advertising may bring a commodity to the attention of the consumer so effectively as to make him finally yield to its allurement.

Availability of Commodities. Advertising promotes a greater availability, in fact a universal accessibility, of an article by bringing about a widespread distribution of it. It fosters a national demand for a national product. Today one may buy hundreds of advertised products in any part of the United States and even in foreign countries. In other words, the favorite brands of every consumer are available to him, irrespective, to a large degree, of time and place. This argument for advertising, however, is subject to one limitation; namely, highly expensive and extremely competitive advertising may cause the failure of a competitor, and therefore the product, even though the best, may no longer be available. A larger quantity and a better quality of advertising by competitors is one of the reasons for the disappearance of some of the once best-known brands.

Price Information. One obvious function of advertising, granting its truthfulness, is the conveyance of information concerning prices. This service is at its best when it pertains to well-known articles—those which are standardized by

nature or the process of manufacture. Advertising the reduction in prices of vegetables and familiar brands of groceries, for instance, leaves no doubt in the consumer's mind as to its significance. It permits him to make comparisons and to partake of possible savings. But many advertisements, especially those relating to products whose prices cannot be readily compared, are not wholly truthful and they may mislead the consumer. The proportion of them which are false, however, has declined greatly, and one reason for this is that advertising encourages, in most instances even necessitates, the identification of products. As already intimated, it is very difficult to mislead the public concerning the prices of well-known brands. Advertising itself therefore promotes truthfulness and thus renders a service.

Introduction of Inventions. Advertising is at its best when it serves to introduce new articles for the satisfaction of human wants. Inventions and improvements, important means for a better satisfaction of desires and hence for economic progress, should be brought to the attention of the people. Advertising in this connection is perhaps the most effective way of educating the public. Within a comparatively short period of time it introduced the safety razor, vacuum cleaner, fireless cooker, washing machine, radio, and many other inventions which foster economic welfare or

make life more pleasant. Advertising of this sort, so far as the public weal goes, is in sharp contrast to advertising merely for the purpose of stimulating consumption unduly or of getting trade from a competitor.

Improvement of Goods. The impetus to the improvement of goods because of advertising deserves emphasis. An identified product—one that is different in some way from competing brands—is a prerequisite to advertising. This fact often stimulates the manufacturer to discover or develop new attributes—and perhaps qualities—in his article. The change may consist only of making the article of a more convenient size or shape, or of placing it in a better package. The advertising of filing cabinets, each manufacturer with his campaign to convince the people of the superiority of his product, stimulated the improvement of them. One concern, for instance, in trying to manufacture a filing cabinet that would be different and better as compared with others on the market, lined it with asbestos in order to give protection from fire and therefore a selling point in advertising. Other illustrations of this sort could be cited, all tending to show that effective advertising, by accentuating the need of differentiation, encourages the improvement of goods.

Appreciation of Art. The highest types of advertisements, with lines and a combination of

colors pleasing to the eye, may promote esthetic appreciation. The competition in advertising, demanding more artistic pictures and better typography in order to secure attention, means a constant improvement in technique. It is conceivable that advertisements of this sort may arouse and develop the esthetic sense of many people—of those who come in contact with no other kind of art.

Higher Standard of Living. The last six defenses of advertising—choice in consumption, availability of commodities, price information, introduction of inventions, improvement of goods, and appreciation of art—would indicate that another defense is the promotion of a higher standard of living. Advertising stimulates wants and arouses ambition to consume a larger quantity of goods of a more expensive sort. In most instances, it seems, the commodities are of a higher quality, and in many cases they are conducive to the real welfare of the consumer. Too frequently, however, as explained later, the articles represent no improvement and are actually harmful.

Any promotion of a higher standard of consumption by advertising is wellnigh universal. There is not now the contrast in consumption as between classes of people and sections of the

country, as previously. Advertisements appearing simultaneously in various media, national in scope, promote uniformity in consumption. They mould the desires of all people at the same time and in the same fashion. This may tend to destroy individuality and produce monotony; but the furtherance of democracy in consumption and a higher standard of living as those concepts are interpreted in the United States, cannot be seriously questioned.

POORER SATISFACTION OF DESIRES

Not all advertising, it would seem, promotes a better satisfaction of human wants. Much of it detracts from the utility of goods and may cause lower standards of consumption. These statements raise the whole problem of the relative merits of all consumption goods. What tests, if any, should be applied in deciding what people should consume? What is the satisfaction of human wants anyhow? Should it be measured in physiological or psychological terms? In calories or in psychic units? By judgment or by imagination? Is the satisfaction registered in the esophagus, the stomach, or elsewhere? Should the criterion be the immediate or ultimate effects? Further, who should apply these tests—a misguided consumer or a would-be judge? Is the off-hand guide—what

the consumer is willing to pay—sufficient? These are controversial questions, to none of which can definite, final answers be given.

Crudity of Advertisements. A large proportion of advertisements, if not the majority of them, are displeasing to the eye. They may even be vulgar, however effective they may be in producing sales. The attempt to force the greatest number to see an advertisement encourages its location in the most conspicuous places, as best illustrated by the billboard which mars the landscape at the most strategic points. The turn in the road, where the traveller might enjoy a beautiful view the longest, is usually the spot where a large signboard presents itself to view with the unspoken command that he gaze upon it. It forces itself upon the individual. Of the special senses the eye is the least protected from nuisances. Blatant noises, pungent odors, missiles, and poisonous foods cannot make constant unwelcome and merciless attacks upon the four special senses of hearing, smelling, feeling, and tasting; but a wide range of advertisements, however objectionable they may be, are permitted to thrust themselves upon the sense of sight. In large measure the eye is still the victim of the *laissez faire* philosophy. The police power has not yet been extended to protect the sense of sight as it has the other four special senses.

Creation of Disutility. Advertising to an appreciable degree detracts from the enjoyment of commodities and increases waste in consumption. It is the most powerful weapon yet devised for adding disutility to goods which people already have and utility to those which they do not yet possess. Advertising seeks to create widespread dissatisfaction with present designs and models and styles and to arouse universal desire for the newest and latest and most up-to-date. It seeks to make "repeaters" of durable as well as non-durable goods. These results are incidental corollaries to the general fact that the main purpose of advertising is to make sales.

The toying with utility and disutility by playing on the psychology of the people—all prompted by pecuniary gain—is usually accomplished in the name of improvement and fashion. A shift from the old to the new, no matter what the merits of the change may be, often occurs under the guise of improvement. A basic patent on a commodity may expire and the market may become endangered because others acquire the legal right to manufacture and sell it.[1] The first manufacturer, anticipating this situation, may secure an "improvement" patent, timing its is-

[1] German manufacturers produced a tremendous quantity of safety razors similar to the Gillette and flooded this country with them when the basic patent of the Gillette company expired in 1919. They were encouraged in doing this by the Underwood tariff which prevailed at the time.

suance according to the date of expiration of the basic patent.[2] He launches a great advertising campaign to "educate" the people about the new and "improved" product in order to differentiate it from its immediate predecessor. In short, the manufacturer attempts to invest the article with a psychological halo that will remove it from the threatened danger of direct competition. This sort of advertising, by inference, leaves the old model or type in disrepute—in an atmosphere of inferiority. It arouses dissatisfaction with the old, perhaps leading to its discard and to the purchase of the new.

The part that style or fashion plays in creating and destroying economic values is a well-known fact. Its presence creates utility and its absence disutility. Advertising itself is not the creator but the handmaid of this situation. As the herald of fashion, it secures quick and widespread results. Style goods have usually run their course when they reach the lower strata of economic society. But less time is required now than formerly, thanks to advertising, for the adoption of such

[2] In this connection one should remember the comparative ease with which a patent may be obtained in the United States. This country grants approximately one-third of all patents issued by all countries, largely because of the leniency of our patent system. Also, delays permit a considerable control of the date of issue. See Vaughan, *Economics of Our Patent System*, pp. 182–4, 190–6.

goods by all classes of people, and therefore for the inauguration of another cycle of fashion. Advertising thus hastens and accentuates the effect of fashion.

An interesting manifestation of advertised style is the attempt to narrow the use of certain kinds of articles. Witness the recent attempt to prescribe black shoes for evening wear and other colors for business. The scheme was to create disutility in all shoes except black for a particular time so as to compel the consumer to buy an additional pair. The scheme was concocted to bolster up the shoe business, especially the sales to men. Advertising is the greatest aid in accomplishing such a result quickly and nationally—something that salesmen alone cannot do.

It is not the intention of the author to blame advertising for rivalry in consumption. Class distinctions on the basis of economic expenditure may be found among primitive men. But until comparatively recently the means of making these distinctions were stable. For instance, there used to be an accepted mode of dress for each class of people. Today, with the removal of the caste system, with ability to spend playing a rôle of ever-increasing importance, and with greater economic well-being among the masses, there is a perpetual scramble to attain distinction among

one's fellows by being the first to acquire and display those things which a pecuniary and advertising world dictates as essential to social standing. The result is not conducive to saving nor to the satisfaction of the essential wants. The creation of disutility in goods already bought, forces the consumer to discard them and to make additional purchases, and therefore promotes social waste.

Goods versus Leisure. The preceding discussion has presumed a relatively fixed purchasing power for the average person or family. Because of this assumption, the conclusion follows, as stated in the last chapter, that the gains of some businesses because of advertising necessarily mean losses to others. The usual reply to this criticism is that advertising, by stimulating human wants, leads to greater production, more expenditures for consumption, and consequently larger sales by all business concerns. This raises the question of relative values. Are the additional goods worth the extra effort which is necessary to obtain them? Which is more conducive to the welfare of the individual—the goods or the leisure? Both may be regarded as consumption goods and the comparative merits of the two should be judged on this basis. What is the effect of each on the individual? No definite answer can be given since one must consider the effect of the extra effort

and goods on the one hand, and of the additional leisure on the other. This much is certain, that there is no virtue in purposeless activity; that the mere fact that a lot of wheels are going around does not necessarily imply progress. Several years ago "the strenuous life" was popularized to such a degree that it became almost a fetish. The increasing death rate because of heart diseases among the American people would indicate that the strenuous life both in production and consumption has borne its fruits and that such an existence is certainly not a desideratum of human welfare.[3]

Another aspect of the attempt to acquire more purchasing power in order to satisfy the additional wants aroused largely by advertising is the increasing extent to which both husband and wife seek employment. The income of the former is insufficient to meet their demands, and the latter tries to increase the family income. The consequences necessarily are neglect of the home and other social evils which constitute a debit in appraising the results of advertising.

Harmful Consumption. The advertisers seek and largely succeed in moulding human wants

[3]In an address before the Southern Medical Association in 1925 the President of the American Medical Association declared that, in spite of the "improvement of the physical condition of our race, life expectancy, after the age of forty, has decreased and is really less than it was twenty years ago. This certainly is due to the great stress and strain of modern civilization, with all its complexity."

to their liking. One recent writer on the psychology of advertising admits that there is an important ethical aspect to this whole question of the use of appeals to powerful and deeply rooted human desires. "Is it right to put into the hands of the distributor of goods, weapons such as these, by means of which the man or the woman with money to spend is deprived of his normal control? This matter will be cared for by the recognition of the fact that only those manufacturers and distributors are worthy of survival who render a genuine service to humanity. To lead one to buy what he does not need or what will not benefit him is exploitation; to make available for his use what will increase his comfort and effectiveness in life is service."[4] It is interesting and significant to note the admission that the psychological technique employed today deprives the consumer of his normal control. Those who employ this technique for purposes of exploitation may not be worthy of survival, but the fact is that many of them continue to flourish. The *laissez faire* philosophy cannot be relied upon to eliminate business concerns of this sort when, by admission, the consumer has lost the power to judge and choose freely—when he is unconsciously passive, inactive, helpless—at the beck and call of the advertiser. Let us view these observations in the light

[4] Poffenberger, *Psychology of Advertising*, p. 38.

of what takes place in a pecuniary world shot through with advertising.

The first industry that employed advertising in a wholesale and effective fashion was the patent medicine. Enlightened people generally admit that this business is highly acquisitive, that it thrives by inducing individuals to believe that they need certain concoctions. But are there any signs of its failure to survive? On the contrary, new "medicines" are being put on the market constantly, thanks to the aid of advertising, although their quackery is being exposed constantly by the American Medical Association. Perhaps the most zealous defenders of advertising and the *laissez faire* philosophy in consumption would maintain that the more vicious and positively harmful types have been or are being driven out of business and that the ordinary patent medicine, though only colored water, is not a fraud so long as the victim believes that it is beneficial to him. Is a "fake" desirable until people discover that they are defrauded? Is the satisfaction of wants merely a matter of meeting the requirements of the imagination?

The consumption of cigarettes has been greatly stimulated by the alluring and appealing advertisements of the tobacco companies. Are there any indications that these manufacturers are likely to decline? Yet most people admit that the

greater consumption of cigarettes is socially harmful—that undesirable wants have been stirred up and converted into habits, with money-making as the incentive. Today, as yesterday, advertising is the force that is bent by the business man to his purpose. The sellers of patent medicines and tobaccos have been among the greatest users of advertising. They were the first to use it in a wholesale and effective fashion, and they have continued to employ it to an enormous extent. Cigarettes and patent medicines are only two of the illustrations which could be advanced to show that advertising stimulates the consumption of harmful things.

Still, its defenders say that advertising educates the consumer and helps him to choose those articles of consumption which are conducive to his welfare. It may, as explained previously, help to a slight degree in raising the standard of consumption by presenting essential facts about goods. But here judgment and restraint on the part of the individual are taken for granted—an assumption which, if universally true, would deprive advertising of much of its power. The essence of its force depends upon the subtle, irresistible, persuasive influence which it exerts upon the consumer. But granting the self-control of the consumer, whose advice should be followed? Take the matter of foods, drinks, and smokes.

Today we are counselled to eat more bread, breakfast food, oranges, raisins, meat, and ice-cream; to drink more coffee, postum, ginger-ale, and near-beer; and to smoke pipes, cigars, and cigarettes for business success, protection of the voice, social prestige, and comfort. Perhaps in the newspaper or magazine which contains advertisements of this sort there appears an article by some physician which prescribes a diet and a mode of living quite contrary to the recommendations of the advertisements.

Sale of Competitive Goods Regardless of Intrinsic Merits. Advertising may stimulate the sale of the less meritorious of two competing articles. A product, no matter how excellent in quality and reasonable in price, no longer sells itself. It may be driven from the market by a higher priced article for which an atmosphere of superiority has been created by advertising. "One might suppose that if Smith's wares were equally good, and were sold at a lower price (made possible by eliminating the advertising expense), he would hold his own in spite of Jones' preposterous puffing. But, in fact, Jones' wares are preferred; some vague impression of superiority is produced by the incessant boasting."[5] This misdirection of consumption rests upon a subtle and refined sort of deception—the advertisement itself may not con-

[5] Taussig, *Principles of Economics*, Vol. II, 3rd. ed., p. 450.

tain a single direct falsehood. The result is achieved largely in the suggestion of superiority produced by illustration, copy, or typography.

What attitude should the economist take toward make-believe, fictitious values created by advertising? An unidentified product may be placed in an attractive container, identified with a fancy trade-mark, glorified by clever, though not necessarily false, advertising, and sold at a higher price. The purchaser appears pleased with the entire arrangement. Is such an inflated value real until exposed by the facts—perhaps an incident, as making a "leader" of it by cutting its price? These questions again raise philosophical problems. Should utility be gauged according to physiology, calories, and judgment, or according to psychology, psychic units, and imagination? And who should apply the tests—the consumer or the critic?

Sale of Less Desirable Class of Goods. Advertising, furthermore, may shift consumption to less desirable classes of goods. Various kinds of commodities may be in competition with each other, not because they satisfy the same definite want, but because their sale depends upon obtaining command of the same, and limited, purchasing power of the individual. The indefinite expansibility of human wants finds its best demonstration in the age of advertising. The underlying

theme of practically all advertisements is to spend, to buy; and all of them, in rivalry with each other, seek to arouse a particular want sufficiently to make people purchase specific goods. But the spending power of the average person is very small in proportion to the things he would like to buy. His desires clash; the strongest survive and find expression, and the others are subdued or must bide their time. It is largely advertising that determines which wants will be satisfied. A list of expenditures for advertisements is very suggestive in this connection. The desires of the highest order, according to the social philosophers of all ages, do not have strong champions—those who are willing to spend millions to awaken and strengthen them. The wants which receive the greatest consideration are sordid and materialistic, those which cater to the love of pleasure. Do the bulk of the advertisements of today encourage the ownership of homes, the acquirement of an education, the quickening of a social consciousness, and the development of religion? Are they conducive to the perpetuation of the family and the promotion of the intellectual and spiritual life? One may certainly question the desirability of advertising which makes people forego the ownership of homes and, in general, the higher and better things of life in order to buy other goods dedicated to sensuous pleasure.

Excessive Stimulation of Consumption. Advertising may be charged with the excessive stimulation of consumption and its attendant evils. The persistent urge to consume more may have a deleterious effect upon the consumer. It fosters the strenuous life in consumption—an incessant strife for pleasure. The counterpart of this, of course, is the extra working and scheming to provide the wherewithal. More consumption and more production and more consumption, etc., each operating both as cause and effect, are the parts of a vicious circle. The increasing extent to which physicians prescribe the quiet and simple life affords testimony as to their effect. The worst aspect of this situation is found, not in the satisfaction of the primary wants for food, clothing, and shelter, but in the encouragement of competitive, harmful, and wasteful consumption.

The undue stimulation of consumption may make inroads upon capital and therefore impair our economic strength. The orgy of spending at the close of the World War, preceded and accompanied by an unprecedented amount of advertising, due in many instances to a desire to "beat" the then very heavy excess-profits tax, encroached upon our stock of capital. Productivity did not keep pace with consumption, and even if it had one might still condemn the misdirected and wasteful consumption which prevailed.

To some extent the tendency to excessive consumption is retarded by the advertising of banks, insurance companies, and other institutions which urge the people to save. But the amount of such advertising, in comparison with the quantity which urges people to spend, would indicate its relative ineffectiveness as an influence.

EDUCATION

One type of advertising, often called good-will or institutional advertising, possesses educational value. Bulletins of large banks furnish a noteworthy illustration. Many of them are prepared by trained economists and deal with a variety of subjects, such as international trade balances, foreign indebtedness, marketing of cotton, the textile and other industries. They add to the stock of useful knowledge and, indirectly at least, promote economic efficiency. Education of this sort, however, is open to criticism. First, much of it proceeds from a biased point of view and seeks to serve a particular interest. Several of the monthly bulletins of financial institutions, purporting to reveal economic conditions, are prepared solely from the particular institution's standpoint. Deliberate omissions and colored statements may be worse than no information. Secondly, this kind of education at best is very expensive from the social point of view. A similar

expenditure by educational institutions, or even by the government, could accomplish more and better results. But the truth of this contention does not detract from the fact that publicity in the guise of education is not nearly so wasteful as most other advertising.[6]

WASTE OF ECONOMIC RESOURCES

One may question the comparative general desirability of using land, labor, and capital for advertising. Might not these factors of production be directed along channels more conducive to public welfare? For instance, should artists be employed in painting pictures of permanent beauty, or in designing illustrations for a manufacturer of artificial silk stockings?[7] And would not the social weal be served in using more wood pulp for school books and less for advertising?

[6] One of the current fallacies concerning the benefits of advertising is that it makes possible the sale of large newspapers and magazines for a trifling sum and therefore promotes the education of the masses. This can be done, it is said, because of the revenue received by these publications from their advertisements. This argument is like the one to the effect that the sale of liquor enabled the saloon to provide a good lunch free of charge or at a nominal price. Both the publication and the lunch obviously are paid for in other ways. The somewhat cynical observation might also be made that the largest newspapers and magazines are almost invariably those of the least educational value.

[7] It may be held that an artist, who might otherwise starve, is able to make enough money by advertising work to enable him to go on with his painting. It may also be held that an artist, who does enough commercial work to make a decent living, usually ceases to be an artist and becomes just another illustrator.

Does not the whole program of conservation demand less advertising?

These queries bring forth again the controversial subject of the extent, if any, to which an individual or a government should try to impose its standards of consumption on others. Orthodox economics accepts the satisfaction of human wants as measured by the consumer and hence leaves no room for ethical implications. It assumes that he is right, that he should decide upon the quality and quantity, the time and place, of consumption. This attitude is born largely of expediency in the attempt to build up a science of wealth. But the *laissez faire* attitude in consumption as in other fields of economic activity is breaking down. The government is establishing metes and bounds to the doctrine that the individual knows best what is conducive to his welfare. It is prescribing what may be consumed. Even economists, especially those who take a national point of view, are setting up standards for human consumption. For instance, some of them take the point of view that our resources as a nation should be conserved, and consequently are extremely critical of anything that is wasteful. They would preserve and control our land, labor, and capital. From this standpoint alone, to mention no others, one may advocate the curtailment of advertising, in that the labor, machinery,

and wood pulp devoted to it represent waste to an appreciable extent.

UNDUE INFLUENCE OF PUBLIC OPINION

Another indictment of advertising is that it exerts an influence upon the news and editorial policies of newspapers, magazines, and other media which help to mould public opinion. Since their financial success depends largely upon their advertisements, they are likely to oppose anything inimical to the advertisers. They may, according to the argument, even align themselves with policies favorable to business though unfavorable to society. They may at least remain silent, it is maintained, when they should take a stand on the side of public welfare.

It is a fact that there has been a remarkable swing in public opinion toward business within recent years. Moderate opposition to big business, to say nothing of the violent sort, on the part of politicians and others, no longer meets public approval as it once did. Today, in contrast with a few years ago, the Federal government and most of the states maintain a friendly attitude toward the business corporation. Different reasons may be advanced for this change, and one of them is the influence of advertising upon news and editorial policies. Newspapers, magazines, and other advertising media financially depen-

dent upon advertisers have reflected an appreciation, it seems, in a more lenient and tolerant attitude toward them and their enterprises; and this has borne fruit in a changed public opinion.

It has been pointed out that few or no advertisements appear in those papers and magazines which are hostile to the present economic order. This may be explained partly, however, by the fact that their subscribers generally have a minimum of spending power and therefore do not make good "prospects."

This whole subject is a controversial one and may be dismissed in a general fashion. Various media, especially newspapers and magazines, which are instrumental in shaping public opinion, are to a great extent dependent upon their share of the one billion dollars, approximately, spent yearly for advertising; and therefore there is at least danger that they may be unduly, even if unconsciously, influenced in behalf of those who expend this exorbitant amount. In other words, they may fail for this reason to perform properly their function of shaping a wholesome public opinion.

PREVENTION OF MONOPOLY

Advertising may serve as a barrier to monopolistic aggressiveness. A manufacturer of a product sold by price only is at the mercy of a larger con-

cern which undersells and engages in other tactics for the purpose of driving him into bankruptcy or of forcing him to surrender. On the other hand, an enterprise, though small, with a well-known brand—one advertised persistently and sold not on the basis of price only—may be able to weather the strenuous or even cut-throat opposition of a would-be monopolist. This was demonstrated in the tenacity and persistency with which small tobacco companies held out in the formation of the tobacco trust. Under certain circumstances, then, advertising may help to preserve competition.

CONCLUSION

The last two chapters are designed to show, more than anything else, that one should not generalize concerning the merits or demerits of advertising in its entirety. Here and now, as everywhere and always, the glittering and sweeping statement is usually unsound. Advertisements must be examined on an individual and not a collective basis if one seeks a proper estimate of them. In appraising them, their truthfulness, though important in itself, is insufficient as a criterion. Other factors, as already explained, are significant in the process of evaluation. To-day one sees and hears praise and practically no condemnation of advertising. Those that profit

by it have done much to convert the American people to an opinion of its general desirability. Dissociation from the "atmosphere of selling" is the first prerequisite to an appreciation of the net worth or liability of advertising.

CHAPTER VI

ACQUISITIVE PRACTICES

THE preceding chapters have been concerned mostly with those aspects of marketing and advertising which have increased the cost of production. They have shown why it is that so many factors of production now have to enter into the problem of getting goods from the producer to the consumer. It remains to describe certain acquisitive practices which affect primarily the distribution of wealth and which partly explain the large proportion of the consumer's dollar spent for marketing. Subjects that will be considered are monopoly, unfair competition, protective tariff, misuse of trading in futures, advertising, and style.[1]

MONOPOLY

Monopoly is obviously an acquisitive practice. It need not be complete in order to assert its power in the market. It may be classified with respect to several different bases, such as degree of

[1]This list, of course, does not include all acquisitive practices. These subjects are selected for discussion because of their importance and variety.

control, area, number of stages of production, structure, purpose, and source of power. The last two bases warrant particular consideration because of their direct relation to marketing.

Purpose. Among the purposes of a monopoly are the following: reduction in the cost of production through a saving in freight rates, advertising, salesmanship, by-products, etc.; better service, as illustrated by quicker deliveries from the nearest one of several plants; and most important of all, the payment of lower prices to sellers or the exaction of higher prices from buyers, or both. In any event the predominant, and usually the only, purpose of monopoly is to derive a larger financial income from its buying and selling operations. Usually any unified control is associated in the popular mind with the selling of products, but it may be asserted just as effectively in purchasing them. Operators of lumber yards, for instance, may agree on high prices at which to *sell* their products; and local grain dealers may unduly depress the prices at which they *buy* grain from the farmers. Monopoly is primarily a marketing institution. Its purpose is to buy for less or sell for more than would prevail under freely competitive conditions.

Source of Power. Monopoly may be looked at from the standpoint of the source of its power, such as the decided limitation of the supply of

raw materials. Certain general conditions are conducive to monopoly; and one of them, the prospective unprofitableness of labor and capital, should be elaborated insofar as it arises from the modern system of selling goods. The necessity of large expenditures for successful marketing increases the amount of money required to engage in business effectively. It disheartens those of limited means who otherwise might enter the industry. It augments the average size of enterprises in which advertising is an important factor, limits the number that engage in the particular business, and to that extent may facilitate agreements in restraint of trade. Moreover, a new concern, though well equipped financially, may be uncertain of its ability to compete, not in making a product of equal or better merit at the same or a lower cost, but in advertising it effectively. The concern which is the best advertiser is the one most likely to win. The modern rôle of advertising in business adds to the prospective unprofitableness of labor and capital and therefore to that extent discourages competition.

Result. The result of monopoly from the standpoint of marketing must be interpreted primarily in terms of price. The extent to which it pays lower prices or charges higher ones depends, of course, upon the degree of elasticity of sale and of purchase respectively. It is conceivable that a

monopoly might make prices, especially in selling goods, which are no higher, possibly lower, than would prevail under competitive conditions. But this possibility exists in theory only, for examples of it from actual industrial history cannot be cited. On the basis of theory and practice one is justified in stating that a monopoly is not organized unless it can effect lower prices as a buyer or higher prices as a seller or both. Practically all the advantages of monopoly as shown by extensive studies are acquisitive rather than social. One may take for granted, therefore, that a successful monopoly manipulates prices in its own favor.

From the social standpoint, a monopoly may be as efficient, more efficient, or less efficient than rival concerns would be under a competitive régime. One monopoly may be as efficient as competitors in the same industry would be; in fine, the amount of the factors of production necessary to accomplish a particular result remains the same. That being true, its significance lies in the field of distribution only. It effects no change in production but succeeds in adjusting prices to its advantage. Another monopoly perhaps produces goods more efficiently than competitors in the same industry did formerly, but absorbs the savings in the form of a greater financial return. Under such circumstances it affects both the

production and distribution of wealth. Though it should charge the same prices as would prevail under competitive conditions, the same result would follow—a cheaper production and a greater concentration of wealth. A third and more likely possibility is that the monopoly may be less efficient than would be true under competitive conditions. It is obvious that this condition would mean a change in production. If the advance in prices were just sufficient to offset the decreased efficiency, there would be no effect on distribution. If, however, the increase should be more than enough to offset the lessened efficiency of production, the distribution of wealth would be obviously affected. This latter possibility is more likely to occur because experience has demonstrated that if a monopoly cannot make greater earnings than prevailed under competitive conditions it is apt to disintegrate.

In discussing the effect of monopoly, either partial or complete, upon marketing one need not consider whether it is legal or illegal. As a matter of fact, most of the business organizations engaged in acquisitive practices in connection with marketing have been or would be held illegal by the courts. But there are others, which have been or would be construed as legal, that must be considered. Some of the open price associations, for instance, the Hardwood Manufacturers' Associa-

tion, have been held illegal, while others, as the Maple Flooring Manufacturers' Association, have been declared legal; but both are appreciably alike in their ability to restrain trade and affect the proportion of the dollar which goes to the marketing process.[2]

Partial Monopoly of Advertised Products. Another kind of monopoly is based upon the differentiated and advertised product. Each advertiser tries to put his product in a class by itself, and to make the consumer insist upon it by telling him of its superiority and admonishing him to avoid substitutes. He seeks to protect his position by psychological barriers which competitors cannot cross. The result may be competition in selling goods which are partially subject to monopolistic control. Each commodity is marketed in competition with the others, but the esteem in which the public holds it makes possible its sale in terms of quality or service primarily and price only secondarily. For that matter many identified or branded products of the same group cannot be compared readily as to price since they are sold in packages of different sizes. The rivalry lies in toying with the psychology of the public. Manufacturers and others may charge different prices for practically the same commodity because of different degrees of success in their ad-

[2] For a discussion of these two associations, see pp. 229-32.

vertising and price policies. The producer who can make the public insist upon his particular brand can secure a profit above the competitive level.[3]

Conclusion. A monopoly—whether it be the ordinary industrial concern which seeks to control the supply of a product, or the company which succeeds in persuading people to insist upon its brand—results in favorable prices to the monopoly. It means, in other words, that the margin between what the monopolist pays and what he receives becomes wider. The effect is to increase the cost of marketing absolutely and relatively from the standpoint of the public. Production as a result of monopoly may be more or less efficient or no different at all. On the other hand, the seller of raw materials to the monopoly may receive less and the buyers of its products pay more. A larger proportion of the dollar is absorbed in the process of marketing. The farmer, for instance, in disposing of his materials, receives a smaller proportion of the consumer's dollar. In short, the cost of marketing from the standpoint of the public is increased through changes in the distribution of wealth.

[3]The exploitation of advertising to secure a higher price may be the practice of an orthodox monopoly—one which controls the supply of a certain product. Such a concern, though already receiving the price of highest net returns, may, through advertising, raise the demand schedule or estimation in which his product is held in the minds of consumers, and, therefore, by charging a higher price, enjoy a larger profit.

UNFAIR COMPETITION

From the standpoint of the economist, fair competition tends to preserve the efficient units of business organization and to destroy the inefficient. Methods of competition which prevent the realization of these two objects are economically unfair. They signify the attempt to secure a larger pecuniary gain, and lead to a greater cost in terms of the factors of production. It is the first aspect—pecuniary gain—which deserves particular emphasis at this point. Frequently the purpose and result of unfair competition is the securement of a monopoly, and therefore a close relationship between these two practices exists. In fact, most acquisitive methods in marketing are tinged with some aspect of monopoly. Moreover, much that is unfair is based upon differences in bargaining ability. The small-scale buyer or seller usually lacks experience and information and consequently may be handicapped in dealing with a large-scale seller or buyer of considerable experience and knowledge of market conditions. A cooperative marketing association, as explained in a later chapter, usually justifies itself by increasing the size of the business unit, securing better market information, and thus improving the bargaining ability of its members. Further, the large concern usually enjoys a considerable advantage over the small business in their com-

petition with each other, particularly in reference to purchases. Witness the bargaining power of the chain store as compared with the general store, in buying goods. This difference in bargaining ability between large and small enterprises may be characterized as primarily acquisitive.

Space will not permit a detailed consideration of the sundry methods of competing unfairly. In fact, such a discussion is unnecessary. The mere mention of certain practices suggests either inefficiency or acquisitiveness. The use of full-line forcing, for instance, implies that certain commodities do not possess those requisite attributes of price, quality, and service which will enable them to stand alone, so to speak, in the open market. They must be propped up either by meritorious or by monopolized products which the purchaser wishes to buy. Each article should be sold on the basis of its own qualities, or else be driven from the market. Other kinds of tying contracts, as the dictation of supplementary supplies and the control of complementary goods, are likewise undesirable.

All unfair devices are born of the desire to obtain an acquisitive advantage in the market either immediately or ultimately. Excessive quantity discounts, as well as other manifestations of selling below cost, are designed to prevent a competitor, no matter how worthy, from

selling his goods, either by increasing his costs through smaller sales or by exterminating him. Threats of higher prices, leading to overstocking by merchants, may be characterized in the same fashion. The price policy known as "Pittsburgh plus" not only hinders the operation of the law of comparative advantage as between sections of the country, but is a favorite expedient of the monopolistic concern to derive the greatest financial return. The maintenance of re-sale prices is usually for the purpose of preventing the exposure of the inflated value of advertised products. Other price policies, as local price cutting, are unfair and should be criticized like those already mentioned.

Advertising is not inherently unfair, of course, but it may be used very effectively in conjunction with unfair methods. Advertisements which are downright falsehoods—for the purpose of making money out of their victims—are obviously unfair. A competitor may unjustly suffer the loss of his business or in self-defense engage in similar tactics. Advertising is the handmaid of predatory price cutting. The specific price reduction may be true, as advertised, but it may be designed to induce people to believe that other prices are correspondingly reduced. Again, excessive advertising has been condemned as one of the means for driving others out of business. The large cor-

poration with ability to spend liberally is in a position to discourage or destroy a smaller company, perhaps more efficient, that cannot or will not expend large amounts for an advertising campaign. This use of advertising was one of the earliest, as illustrated by the tobacco trust. Taussig says: "Plentiful cash is the *sine qua non* of an effective advertising campaign. The large producer, or would-be monopolist, has here again a tactical advantage."[4]

PROTECTIVE TARIFF

A protective tariff affects both the production and the distribution of wealth. The classic argument against it is that it violates the law of comparative advantage. In other words, a tariff interferes with the allocation of the factors of production on the basis of comparative efficiency. It diverts them from those industries where they are more efficient to others where they are less efficient, or from those lines of activity in which their disadvantage on an international basis is the least to others in which their disadvantage is greater. The result of this is to increase the cost of production in terms of land, labor, capital, and enterprise, and therefore in terms of dollars and

[4] *Principles of Economics*, Vol. II, 3rd. ed., p. 450. For a detailed description of various methods of unfair competition, consult Stevens, *Unfair Competition*, and Vaughan, *Economics of Our Patent System*, chaps. IV and V.

cents. From either standpoint there is an unnecessary addition to the cost of production which economic society must bear. A more important aspect of the tariff from the standpoint of marketing is its influence on distribution. A protective tariff permits certain business interests, manufacturers especially, to charge higher prices for their products in the United States than in other countries. It is necessary at this point to examine the conditions which make this acquisitive practice possible.

Importation Basis. That this country be on an importation basis for the commodity in question is obviously essential. If this country does not produce enough to satisfy the normal demand, the price will rise to an amount equal to the tariff. At this point importation will begin. Many manufactured products illustrate this situation. Excellent examples in the field of farm products are sugar and wool. There is not enough of these commodities produced to meet even half our consumption requirements. Their prices rise sufficiently to offset the protective tariff, at which point importation may begin. The producers of these articles, therefore, can sell them at prices higher in the United States than abroad. However, the majority of farm products, especially from the standpoint of value, are on an exportation basis. More of them are produced than are

consumed by the people of the United States. The surplus finds an outlet in other countries only when the difference between the domestic and foreign prices is sufficient to pay the cost of sending it abroad. A tariff on such crops obviously cannot exert any economic effect. This is the chief explanation of the fact that at present, though both the typical manufactured product and some farm products, as wheat, are "protected" by high tariffs, the former sells for more in the United States than abroad and the latter for less.

Differentiation of Products. It may be possible for the manufacturer of an identified article to sell it for more in the United States than abroad even though the article in this country is on an exportation basis,—in other words, though more of it is produced in this country than is consumed. By means of trade-marks and advertising, the manufacturer differentiates his product from the commodities of his competitors. He controls in this way the entire supply of his particular product, and in selling it can pursue to an appreciable extent a price policy of his own choosing. He may charge prices which are below, at, or above the prevailing market price in this country for the class of articles to which his product belongs. There may be a degree of preference for his article in comparison with other brands, and therefore

people may be willing to pay a high price for his product rather than a low price for a substitute. But from the standpoint of the financial advantage to the manufacturer, there are decided limits to the extent to which his price may exceed the general market price. To that degree the tariff, by keeping the price level higher in this country, may enable him to exact a higher price and yet not depart greatly from the prices of his competitors. What the domestic market will not absorb may be disposed of abroad at lower prices. Even his competitors, by selling at or below the general market price, can likewise sell at higher prices, though to a lesser extent, in this country than on foreign soil. A higher price level in the United States than abroad owing to the tariff, and the ability to control the supply of a fabricated product through identification, enable the manufacturers, though in varying degrees, to sell for higher prices in the United States than in other countries.[5]

On the other hand, the farmer cannot differentiate his crop from that of others, and the amount of it constitutes an insignificant portion of the entire production of thousands of other farmers. A grower of wheat, for instance, obviously cannot

[5] As explained later, if the tariff does not lead to a higher price level because of the equal or greater efficiency of American producers, the domestic price of any one of them cannot appreciably depart from the foreign price.

identify his product by means of trade-marks and advertising. His crop must be sold merely as wheat of a certain grade in competition with millions of similar bushels. It is a small fraction of the total yield, and consequently he must accept the general price based on demand for and supply of wheat. The inability of each farmer to differentiate his wheat is another reason, to be considered in conjunction with the exportation basis of this commodity, which accounts for the lower price of wheat in the United States than in England and other countries.

Control of Output. If any concern controls practically the entire output of an industry, it is obvious that a protective tariff would permit it to charge higher prices in this country than elsewhere. The International Harvester Company, the United Shoe Machinery Company, and the Eastman Kodak Company furnish examples of industrial monopolies in an economic position to pursue such a price policy. The necessity of large units of fixed capital and the consequent operation of the law of decreasing cost and the limitation of the number of enterprises, together with other economic forces, facilitate monopoly and restraint of trade among manufacturers and the sale of their "protected" products, therefore, at higher prices in the United States than abroad. On the other hand, the control of the output of a

particular crop produced by thousands, even millions, of farmers is practically impossible.[6]

Comparative Efficiency. Another factor which influences the policy of selling products in the United States at higher prices than in foreign countries is the relative efficiency of the industry in question. If the domestic manufacturers are at least as efficient as their rivals in other countries and if they are in competition with each other, their prices will be as low in the United States as elsewhere, or possibly lower. Their particular industry would not be affected one way or the other by the tariff. Possible examples are the textile and shoe industries. But most of the protected businesses are, according to their own confessions before Congressional Committees, unable to meet foreign competition. They will not be undertaken or cannot continue without the tariff —in short, without higher prices in the home market than prevail elsewhere. Their very beginning and perpetuation are predicated upon higher prices in the United States than abroad.

However, grain, cotton, tobacco, and other farm products are grown approximately as efficiently here as elsewhere, for otherwise they could not be sold as they are, at world prices. Incidentally it should be pointed out here that the

[6] In this connection, read the discussion of the likelihood of monopoly through the cooperative marketing associations of farmers, pp. 199-205.

plea of the American manufacturer to protect the American workman from the pauper labor of other countries is untenable and hypocritical in view of the fact that the American farmers sell most of their products, as wheat and cotton, on the basis of world prices and hence in competition with the producers of other places, as Russia, Egypt, and China, who employ the most benighted and degraded labor in the world.

Diverse Effects. This discussion has already intimated that some parts of our economic system derive an acquisitive benefit from the tariff while others suffer an economic loss. In general, manufacturers conform to the factors already mentioned in such a way as to enjoy advantages from the tariff while the farmers are in the opposite situation. We are more decidedly on an importation basis for manufactured commodities than for farm products. The former are also generally differentiated while the latter are not. Furthermore, the private monopolies that prevail in the United States are confined mostly to manufacturers, and are practically unknown in agriculture. Lastly, those lines of activity in which the factors of production are as efficiently engaged in the United States as in other countries are found less in the manufacturing field and more in the agricultural.

At the present time wheat is subject to a high

tariff; in the past it has not been. But under either condition its domestic price tends to be the Liverpool price minus the cost of transportation to Liverpool. In other words, the tariff serves no purpose which benefits the wheat grower.[7] In terms of the factors already mentioned one will observe that wheat is on an exportation basis, that it cannot be differentiated or monopolized, and that the degree of efficiency with which it is produced compares favorably with that of other countries.

Conclusion. The foregoing discussion should reveal the fact that any economic influence of a permanent protective tariff is acquisitive in character. It brings a monetary advantage to certain groups of our economic society and a corresponding disadvantage to others, and thus affects the distribution of wealth. An apparent advantage for all as a result of the tariff would obviously mean no real advantage to anyone. The individual benefit of the tariff in the form of higher prices necessarily presupposes that not all prices for products and services advance. The acquisitive advantage to one individual or group presupposes no corresponding increase in the prices of other products. Today, for instance, manufacturers

[7] It is true that in certain years when particular kinds of wheat which are necessary for milling purposes are scarce because of crop failure, the tariff tends to boost their prices, especially in that part of the United States contiguous to Canada.

who sell their products for more in the United States than abroad as a result of the tariff are greatly interested in seeing no advance in the prices of grain, livestock, and other products which affect the cost of living of their employees. If the time should come when this country, on the basis of world prices, could not produce sufficient crops to meet our consumption requirements, a tariff on agricultural products would bring an acquisitive advantage to the farmer. This would be to the disadvantage of other members of our economic society and therefore tend to nullify any acquisitive advantage from the tariff on manufactured goods. One should recall that this happened in England and hastened the era of free trade.[8]

MISUSE OF TRADING IN FUTURES

One acquisitive practice which adds to the cost of marketing goods is the abuse of trading in futures. This takes the form usually of either gambling or manipulation. Both of these acquisitive practices are alike in that they produce an ill

[8]It should be noted that tariffs for "protection" and for "revenue only" as translated into practice in the United States exert the same effect though in different degrees. If a tariff for revenue only is not offset by a corresponding tax on domestic consumption, it exerts an economic influence, though to a lesser extent than a protective tariff. But our tariffs for protection are as a rule much higher than our tariffs for revenue only, and for that reason they have been much more conducive to the acquisitive price policy of selling at higher prices in the home market than in foreign countries.

effect on prices and hence on the marketing system.

Gambling. Gambling in futures is confined primarily to those who are not members of an exchange, familiarly known as "outsiders." In this respect they are different from speculators, who are usually members of the exchange, although the operations of both from a technical standpoint are quite similar in that they are engaged in buying and selling futures and subjecting themselves to certain risks. Fundamentally, however, the activities of outsiders in the future market are in contrast with those of the "insiders" or speculators. The outsider exercises little or no judgment, as attested by the fact that he usually buys first and sells later. The blindness of such procedure may be quickly understood when one reflects that prices go down as often as they go up. The reason that the outsider first enters the market as a buyer is that his past experience indicates this step as the only way to enter the future market. He has been accustomed to buying houses, land, livestock, and the like and then attempting to sell them for more than he paid for them. Consequently, his method of operation is first to buy futures and later to sell them. On the other hand, the member of an exchange may sell futures and then purchase them to fill his contract as frequently as he does the reverse. To

repeat, the typical outsider exercises little or no judgment as shown by his methods of operation in entering and leaving the market.

Moreover, trading in futures, especially by outsiders, is controlled largely by mob psychology. Such outside traders enter the market as buyers, and if the price advances they increase their purchases while at the same time other members of the public are encouraged to do likewise. When the price of futures begins to descend, the opposite takes place. The outsiders sell in tremendous volume, all practically at the same time, in order to realize on gains or avoid excessive losses. This method of operation on their part, therefore, causes extreme swings in prices; and since the purchases and sales are not governed by conditions of demand and supply but rather by the gambling instinct, the resultant prices may not reflect true economic conditions. Prices may advance as a result of their activities when the true economic conditions would compel a downward trend, and likewise their sales in tremendous quantities because of mob fear may make the market prices dip unduly low—beyond what actual market conditions of demand and supply would justify. In contrast with this system is that of the professional trader—the typical member of an exchange.[9] His operations are

[9] This particular discussion assumes that the trader does not seek to manipulate the market.

the result of a careful, unbiased study of extensive data concerning demand and supply, and consequently the prices which tend to follow from his activities are more likely to reflect true economic conditions. From the standpoint, then, of the extent to which judgment is used and of the economic effect of trading in futures, one must distinguish between the operations of outsiders and insiders. The outsider uses little or no judgment, and the economic effect of his operations is to register a price which may not reflect economic conditions. On the other hand, the professional trader exercises judgment based upon data, and his activities tend to register a true economic price. The operations of the one are consequently, from the economic standpoint, undesirable, while those of the other are desirable. The reader should be reminded in this connection that the price of every economic good must be determined, and consequently the performance of this task in an intelligent fashion constitutes an economic service. When one recalls that much of the trading in futures is by outsiders and that most of it is not for the purpose of hedging, he can appreciate the extent of gambling in them.

Manipulation. The manipulation of the market is usually carried on by members of an exchange, and it consists of any undue buying or selling or other activities which tend to make prices unduly

low or high—in other words, prices which are not in keeping with true economic conditions. The purpose of such traders is not to partake of a possible gain resulting from competitive buying and selling but rather to influence or manipulate the market price according to their own liking. The operations of a few speculators usually cause the extreme and destructive swings in the prices of futures. In 1926 the Grain Futures Administration, in response to a Senate resolution, investigated the great fluctuation in the price of wheat futures during the early part of 1925. It reported that "the majority of the days on which there were wide and erratic price fluctuations were days on which one or more of the large traders bought or sold May wheat to the extent of 2,000,000 bushels or more."[10] This is typical, it would seem, of other unwarranted disturbances in the prices of futures.

Consequence. Next we should turn our attention to the results of gambling and manipulation. The first effect is, as already intimated, that prices are made unduly low or high, in short, contrary to the market conditions of demand and supply. Such abrupt and unjustified changes in prices, whether up or down, mean unexpected gains or losses. They may signify the payment of

[10] *Fluctuations in Wheat Futures*, U.S. Senate, 69th Cong., 1st Sess., Document No. 135, p. xi.

higher prices than anticipated by purchasers or the sale of commodities at prices lower than expected by sellers. The result is purely acquisitive to those immediately engaged in the gain, and an additional burden to those who busy themselves in legitimate economic activities.

A second result of the misuse of trading in futures is that the resultant prices, out of line with what the true economic price would be, are a fallacious guide to the making and marketing of products. Those engaged in legitimate business proceed on the assumption that prices are justified, and their plans for the future are governed accordingly. It is obvious that artificial prices are vicious in that they mislead individuals in their buying and selling and other economic activities.

Both of the activities, gambling and manipulation, as already noted, result in big and unwarranted changes in prices. Price movements are unnecessarily irregular, which adds to the uncertainty of business men who must buy and sell on the basis of prices determined on the exchanges. An even trend of prices, on the other hand, is conducive to a smooth working of the economic system. The tremendous fluctuations in prices—those that take place without any obvious cause—cannot be foretold. Even a casual observation of exchanges reveals the fact that at times prices rise rapidly and fall still more rapidly without

any pertinent change in economic conditions.[11] The manufacturer or merchant who tries to gauge his future activities on the basis of the existing data may find that his effort is of no avail because the judgment he reaches as to prices, however sound, may be vitiated by prices determined under artificial conditions and for acquisitive reasons. The risk of engaging in business is augmented, with a consequent increase in the cost which the public must bear.

Another result of gambling and manipulation, though somewhat incidental, should be mentioned because it brings up, if indirectly, another objection to the misuse of trading in futures. This consists of the waste of human resources. Those outsiders who dabble in futures are usually unfit for anything else while their interest in the market continues, and even after their withdrawal from the game—after by chance enjoying a gain or, what is more likely, suffering a heavy loss—their idea of how to make a living has been so affected or their outlook on life has become so warped that they frequently can no longer direct their energies along those channels by which they previously earned an honest living. In other words, the outsider, either in playing the game or in suffering the after-effects of it, becomes incapable of

[11]The usual explanation is in terms of the "technical" position of the market.

being an efficient producer. He is acquisitive and parasitic, both in theory and in fact. Likewise the insider who is the would-be master of corners and other kinds of manipulations, by devoting himself to an absorbing activity, often renders himself unfit for anything else. He too, though in a lesser degree as contrasted with the outsider, dedicates himself to an acquisitive practice and becomes useless in our economic system.

ADVERTISING

Much advertising is acquisitive in intent, method, and result. It is designed to obtain a pecuniary advantage without a corresponding service to the public. False advertising is so obviously acquisitive that it requires no discussion; even those who give the greatest praise to advertising are practically unanimous in condemning it. However, truthful advertising may be acquisitive—a statement to which many will not subscribe. As shown in the next two paragraphs, the development of an inelastic demand for products through advertising makes possible the securement of unjustifiable prices for them. The attempt to pass the cost of advertising to the middleman will also be presented.

Inelastic Demand. Advertising may convert an elastic into an inelastic demand. In fact, one of its objectives is the attainment of this result. The

advertiser, in doing this, exploits one or more of the factors which determine the strength of the demand for a particular article, namely, degree of necessity, extent of habit, possibility of substitutes, purchasing power, and savings instinct. A favorite method is to make people believe that a particular article is a necessity of life by insisting that one's health, social prestige, etc., depend upon its use. The advertiser likewise seeks to make its consumption habitual by associating it with a certain day, meal, or event. He tries to ward off the possibility of substitution by proud claims concerning his product and warnings about the use of others. The obstacle of small earnings may be partly overcome by making the utility of the article seem tremendous in comparison with its price, by permitting payments on the instalment plan, and by promising greater productivity and other resultant gains to the purchaser. The attack on the savings instinct appears in the guise of quantity discounts and special introductory offers. The development of an inelastic demand for a product makes possible a higher price for it.

Price Level. The advertiser who differentiates his product and seeks to create an inelastic demand for it may adopt any one of the three price levels—below, at, or above the market price.[12]

[12] For a description of these levels consult Shaw, *An Approach to Business Problems*, chap. xv.

The sale of a product at less than the general market price is employed usually in introducing a new product. The expense of the advertising may be borne temporarily by the manufacturer or merchant with the expectation that it will later pay for itself. A large output accompanied by decreasing cost of manufacturing and selling may justify the continuation of this policy. Generally, however, after the development of an inelastic demand this price level is abandoned and another one adopted.

An advertised product may be offered at the prevailing market price, especially if the class of commodities to which it belongs sells consistently at a uniform price. A business devoted to a few products, as oil and gasoline, facilitates the comparison of prices. Further, a test of alleged qualities of different products may be difficult, for the consumer may lack criteria. For example, the owner of a car cannot readily compare the relative merits of different brands of oil and gasoline —their effect on the operation of his car—because he knows little or nothing, as a rule, about specific gravity, high-pressure distillation, and the like, and because he ordinarily uses the products first of one service station and then of another. Under these circumstances, selling below or above the accepted price is practically impossible since usually the one leads to cut-throat competition and

the other to a loss of business. The company which differentiates its oil and gasoline usually accepts the market price and then seeks to recoup its expense of advertising from greater sales or from a reduction in the middleman's margin of profit. By persistently "educating" the public, it may be possible eventually to sell one make of oil and gasoline at prices higher than those of competitors. In fact, this has already taken place to a slight extent.

As already indicated, selling at prices above the general price level of competing products, especially of those which are not well known, is the ultimate object of most advertisers. Its success depends upon the creation of an inelastic demand—upon new psychic values and a higher schedule of demand prices for the particular article. Advertising is the force which may accomplish this result. It is the tool for exploiting the consumer's surplus. A manufacturer, by advertising effectively, may lead people to believe that his article is superior to such any extent that he may receive a price that is higher by an amount that exceeds the cost of any extra quality which it may possess. The higher price itself implies a finer quality. Further, a commodity sold in bulk, as rice, prunes, etc., may be placed in a package, identified by a trade-mark, and glorified by clever advertising so that it may be sold at a price ad-

vanced much in excess of the cost of the container. Again, the high price as well as the advertising suggests a superior product. Moreover, a manufacturer or merchant may sell practically the same product, as some of them do, under various names at different prices, though with varying amounts and kinds of advertising. Each level of demand is tapped at a price to secure the greatest financial return.

Whatever the details of selling above the general market price may be, the price is higher than it would have been otherwise. Such a policy, based upon the creation of an inelastic demand for a particular product through advertising, is an acquisitive practice and deserves condemnation from the standpoint of economic welfare. It does much to explain the increasing proportion of the consumer's dollar spent for marketing and advertising.[13]

Reduction of Margin of Profit of Middleman. As already indicated, the expense of advertising may be passed along to the consumer by means of a

[13]Some manufacturers who maintain the re-sale prices of their products, for which an inelastic demand has been aroused, state that advertising does not cause higher prices. It is pointed out that the prices of safety razors, for instance, have remained the same in spite of advertising and even a higher cost of making them. The answer to such a contention is that in prescribing re-sale prices, the expense of advertising is usually anticipated and liberally allowed for. Advertising, with its creation of new psychic values, makes possible the fixation of re-sale prices on a level high enough to enable the manufacturer to widen unduly the margin between the cost of manufacture and the retail price.

higher price. Another method of recouping such expense is to reduce the middleman's margin of profit. The manufacturer, for instance, may do this to an appreciable degree by developing a strong and insistent consumer demand so that the middleman will be compelled to handle his product. The justification of this procedure from the standpoint of the manufacturer is that he pays, through advertising, for a part of the middleman's expense of selling the product. In other words, his advertising means that the jobber and retailer can sell his product with less time and effort and with a cheaper sort of sales person, and consequently that they should be satisfied with a smaller margin of gross profit. There are decided limitations, however, to the extent to which a manufacturer may force the middleman to bear the cost of his advertising. Experience has shown that a liberal margin of profit puts the middleman in a cooperative spirit and stimulates his willingness to push sales. Manufacturers also realize that a low margin encourages the private brands of jobbers and hence competition of a strenuous and disastrous sort. The jobber and retailer insist upon a liberal margin of profit. They contend, among other things, that the greater sale of one brand as the result of a great advertising campaign, means a smaller sale of competing brands, that in the end their total

sales remain the same, and hence that they are not the beneficiaries of advertising.

STYLE

Style is another acquisitive practice which deserves consideration. One part of chapter II describes its effect on the cost of marketing, in other words, on the factors of production. A discussion of the use of advertising in furthering the introduction and adoption of style appears in chapter III.

Manufacturers promote changes in the style of their products in order to increase their sales. The extent to which they succeed with respect to wearing apparel is a matter of common knowledge. They are ever seeking to make more commodities subject to the caprices of fashion. Articles which were once considered relatively stable, the same designs being in vogue for several years or even decades, are now affected by cycles of fashion. Furniture, lighting fixtures, carpets and rugs, together with dozens of other illustrations, could be cited. The apparent purpose is to develop "repeaters" of comparatively durable articles—to encourage the discarding of the "old" but little-used product and the buying of the new. Greater sales and more profit furnish the incentive for such a program. The style changes are timed, it seems, so that the consumers have in

their possession the greatest amount of the commodity to be outlawed by a change of style. At the close of the boom period in 1920, the prices of shoes, along with those of other articles, dropped appreciably. People who had delayed the purchases of them on account of high prices bought them in unusual quantities. Then came the change—from the pointed to the broad toe and from the high top to the oxford. People careful about their dress with respect to fashion—and an increasing proportion of them are compelled to be —discarded millions of pairs of their shoes now designated as "old fashioned" and bought the "new fashioned" in their stead. In a few years one may expect pointed toes for men and high tops for women to be in vogue again, and thus the cycle of change fostered for pecuniary reasons will be complete, only to repeat itself in the more distant future.

The change of style often acts to the advantage of certain producers and to the disadvantage of others. Consequently each group may strive to swing fashions in its favor. A few years ago, for example, the manufacturers of buttons and of machines for attaching them to shoes sought to bring button shoes into favor again. At the same time a company engaged in making kid leather conducted a campaign to retain the fashion of high shoes for women—a vogue that necessitates

the use of this kind of leather.[14] Various methods may be used by corporations which make competitive parts of the same article, in determining the style. Some of them consist of advertisements and "editorials" in trade journals, fashion publications, and national magazines, and of publicity of various sorts at sectional and national conventions of the manufacturers and merchants interested in the particular article—all designed to influence public opinion. As the schemes of one group succeed, those of another must fail. The entire situation arises from a spirit of acquisitiveness and aggressiveness and imposes a burden on the consumers in the form of waste of the "old" and higher prices for the "new."

[14]For a more complete discussion of the importance of style in the marketing of shoes, consult Federal Trade Commission, *Report on Shoe and Leather Costs and Prices*, 1921, pp. 137–44.

CHAPTER VII

COOPERATION

VARIOUS reasons, as stated in the preceding chapters, lie behind the increasing proportion of the consumer's dollar now absorbed by marketing. Some of them have to do with the amount of land, labor, capital, and enterprise devoted to the disposal of goods, and others with acquisitive practices. The former relate to the production, and the latter to the distribution, of wealth. It remains to examine the possible means of reducing the cost of performing the marketing functions and of eliminating acquisitive practices. The agencies for providing remedies are cooperation, individual initiative, and government action.

Credit, producers', consumers', and marketing, constitute the principal kinds of cooperation. Recent changes in our banking system have largely removed the necessity of concerted action by borrowers. Producers' cooperation usually ends in failure because the laborers who compose the membership do not realize the importance of

management. There is a very limited field of usefulness for consumers' cooperation in the United States on account of the chain store and of certain characteristics of the people—their economic well-being, individualism, heterogeneity, and mobility. The only form of cooperation of any great significance from the standpoint of either its present accomplishment or its future possibilities is the concerted action of farmers in the sale of their agricultural products. The remainder of the chapter is devoted to this kind of cooperation.

The ardor for cooperative marketing manifests itself anew with every recurrent depression. The agricultural disaster beginning in 1920, for instance, resulted in an unprecedented growth of cooperative companies with respect to both the size to which they aspired and the commodities with which they were concerned. Cooperative movements of great magnitude come and go in cycles. A few cooperative associations have prospered over a long period of time. The California Fruit Growers' Exchange is the stock illustration of what might be accomplished by farmers through concerted effort. Undoubtedly its success has stimulated the formation of many companies for collective action. On the other hand, most of the associations have ended in miserable fiascos. A cooperative organization succeeds or

fails according to the plan of organization, the nature of the commodity, the volume of business, the characteristics of its members, the degree of necessity, and the kind of leadership. An examination of these factors is essential in appraising the merits of cooperation in reducing the cost of marketing farm products.

DETERMINANT FACTORS IN COOPERATIVE MARKETING

Plan of Organization. The success of cooperative marketing depends largely upon the plan of organization. Two aspects of the plan that deserve particular attention are the commodity and patronage dividend bases, and the duration of the marketing pool.

The commodity basis of cooperation means the pooling, by grades, of a specific product by the respective members of the cooperative company, the marketing of it collectively, and the distribution of the proceeds, after deducting the necessary expenses, among the members according to their respective contributions to the pool. It means for the time being that their economic interests are pooled or placed in a common aggregate which all of them partake of on some prearranged basis. The likelihood of conflict of interest between members is reduced to a minimum. Disagreement concerning the grades and amounts

of their products assigned to the pool might give rise to misunderstandings. But there is no danger of one member of the pool getting a better price than another member, for their respective contributions are sold together as one aggregate, with their identities lost. The most outstanding marketing companies are organized on the commodity principle; and any success which they enjoy can be attributed appreciably to that fact.

On the other hand, the patronage dividend basis leads inevitably to a clash of interests between individual members and between all the members and the cooperative company. Under this plan the association operates practically as a private concern would. For instance, the manager of a cooperative elevator buys from each farmer separately, driving as advantageous a bargain with him as possible, and pays him immediately. To this extent there is no difference between the cooperative company and any competing elevator. Each farmer tries to get a better grade and price than the other farmers; and the manager finds himself pitted against the members in his effort to make a profit for the cooperative company. Under the patronage dividend plan, any profit is distributed among the farmers according to their patronage, i.e., according to the respective amounts which they sold to the company. But this profit at most, experience shows, is a

small part of the sale price which the farmer receives. In short, cooperation in the sense of a common or pooled interest prevails only to the insignificant extent of the profit of the organization; while the clash of interest between the member and the company applies to the remainder of the marketing relationship. The patronage dividend basis was the generally accepted principle in the organization of cooperative companies until recently, and it goes far toward explaining the high mortality rate among them.

A single pool may extend over a comparatively short or long time. One existing for a short period is the most conducive to the success of cooperative marketing, for it implies the advancement of the individual contributions when practically the same price level prevails. All of them are united into one common aggregate under substantially the same marketing conditions. The most ideal pool, from this standpoint, would be one in which all contributions to it were made the same instant. An approximation to this prevails in the California Fruit Growers' Exchange. Various members of a local exchange bring their citrus fruit to a packing plant, and within a day, perhaps, there will be enough to make up a carload, which is the pooling unit. The financial proceeds from this car, after a deduction for certain mar-

keting expenses, are divided among the members according to their respective contributions.

On the other hand, a long-time pool means that its constituent parts are contributed when different price levels prevail; but that the entire quantity is sold, very likely, on one price level. Because of this certain members derive a greater advantage from the pool than others, in comparison with the price which they would have received by selling to a middleman. In fact, certain members may actually suffer a disadvantage.

A long-time pool is illustrated in the cooperative marketing of cotton. All cotton of a particular grade, as low middling, contributed by members is placed in a single pool, and it is sold partly or entirely within the next few months. Members must deliver all their cotton to the cooperative association. When one member delivers, the market price may be exceptionally high, say twenty-five cents per pound, but he must forego the opportunity to sell at this price. Another member, because of delayed picking or some other reason, may surrender his cotton to the association several days or weeks later, when the price has suddenly and unexpectedly dropped, let us say, to twenty-two cents. Assume that the entire pool is sold subsequently for twenty-four cents. The first member, it is obvious, would have reason to complain, as he would have profited more by selling

in the orthodox fashion; while the second member would think in the opposite manner for the converse reason. These farmers, knowing each other, would compare their experiences. Their testimony would conflict, one condemning and the other praising the cooperative association. Misunderstandings, bickerings, and jealousies would inevitably result.

If the cooperative company, by pooling practically the entire output of a product, can feed it to the market at a uniform and stabilized price, there will not arise any such clash of interest between members, since all their products are sold at the same price.[1] But ordinarily a cooperative company cannot dictate the price because it controls only a small portion of the supply or because the product is perishable. The price varies, perhaps daily, and this situation inevitably gives rise to difficulties between members of a long-time pool.

Perishable products, as fresh fruit and vegetables, are of necessity marketed immediately after the harvest, and consequently pools consisting of them are of short duration. On the other hand, durable products, as wheat and cotton, lend themselves to a marketing schedule spread over a longer period of time. In fact, so-called

[1]This assumes an acquisitive practice; see pp. 204-5 for a discussion of this subject.

orderly marketing, extended throughout the year, necessitates a pool of long duration. No part of the plan of operation of a cooperative company is more important in determining its relative efficiency than the duration of the pool.

Other factors are of significance in the organization and operation of a cooperative company. The plan should set forth a simple and definite objective. The membership, limited only to farmers, should be available to them on the "open-shop" basis. All farmers economically tributary to the association should be members of it. The company, to preserve the spirit of cooperation, must adhere to democratic principles, for instance, by limiting the number of shares held by each member, and by permitting each member to cast only one vote.

Each member should by contract be compelled to market his entire crop through the cooperative association. This prevents the spasmodic attempts of middlemen and others to persuade the members to break away from the organization. It is desirable that only one commodity be marketed. This promotes simplicity of organization and operation. The cooperative company faces plenty of difficulties in marketing just one commodity! These would be intensified if other products also were handled. This is particularly true in the beginning of a cooperative company. Further, mar-

keting only one product fosters identity of interest and the cooperative spirit. The economic interests of the growers may clash if they attempt to market different commodities through a single association.

The cooperative company, like every other business enterprise, requires sufficient capital. It should be properly financed from the beginning. The need of a sound system of accounting necessitates no elaboration. It is of greatest importance, of course, to have an able manager—one selected strictly according to his merits for the position. He must please the members and inspire confidence. Power and responsibility should be commensurate in the administration of the company. The members should insist on utter frankness and publicity concerning its affairs.

Nature of Commodity. The varied attributes of a commodity are of significance in measuring the possible accomplishments of cooperative marketing. The degree of perishability and the elasticity of demand are especially important.

The degree of perishability or durability of the product plays a very important part in determining the gain which farmers may derive from cooperative marketing and therefore the relative merits of cooperative marketing in contrast with the orthodox system. Perishability necessitates quick disposal. There can be no waiting or pro-

longed deliberation—it is now or never. Any one of thousands of individual sellers of a perishable product is under a handicap in the bargaining process. The immediate sale of his product means much to him; the purchase of it, however, signifies little to the buyer. The growers, consequently, need to organize and act collectively so as to increase their bargaining ability and thus play a more effective part in price determination.

Perishability renders difficult the performance of other marketing functions. It is the source of many obstacles in ascertaining and maintaining grades. The product may not be able to withstand the necessary physical handling, and it may be of one grade today and of a different one tomorrow because of deterioration in the interim. Whatever grading can be accomplished demands quick and expert treatment. In fact, preservation of the commodity, to say nothing of grades, necessitates special packages, quick transportation, and consistent refrigeration. The difficulty and instability of grades prevent a wide market and uniform prices and hence the securement of market information. These obstacles intensify risk and uncertainty, the assumption of which by the individual grower often ends disastrously.

Experience has shown that farmers acting as a group are more efficient than any one of them proceeding singly in assembling, grading, trans-

porting, securing information, assuming risk, and performing the other functions in the marketing of perishable products. The California Fruit Growers' Exchange furnishes the illustration par excellence of the maximum benefit that may be derived from the cooperative marketing of such commodities. This concern employs the most expert methods in marketing—the best ways of performing the marketing functions. On the other hand, if the product, as cotton, is durable, the farmer is not intimidated by a very limited time in which to dispose of his product. He can afford to wait. Such a product can be graded successfully, making possible a world market. Assembling, transporting, and storing are simplified. There is more market information and less risk. One finds little or no justification for marketing a durable product on a cooperative basis.

If the demand for a product is elastic but at the same time has potentialities of becoming inelastic, cooperative marketing may accomplish wonders in converting the one kind of demand into the other. Such a result is ordinarily beyond the realm of possibilities of the individual farmer.

The California Fruit Growers' Exchange again furnishes an excellent illustration. The demand for oranges today is less elastic than formerly. For certain classes of people, those with higher incomes, the demand has been made inelastic. This

was done by the arousal, stimulation, and intensification of demand, largely through advertising. The product lent itself to this kind of development. The prices of oranges have kept pace with the rise in the general price level, while the consumption of them per person has greatly increased. The cost of advertising, etc., in bringing about this result, by being spread over a large volume of business, was very small per box of oranges. Such a program of demand stimulation, calling for national advertising, was impracticable to the individual grower. An elastic demand capable of change, and group action through cooperation, may bring helpful results to the farmer. But if the demand for a product is inelastic already, as that for cotton or wheat, then the creation of additional demand through collective action cannot be realized to any appreciable extent.

Volume of Business. A prerequisite to every successful enterprise is sufficient business to insure the maximum utilization of its factors of production. This becomes of especial importance if a business unit of appreciable size must be provided prior to the transaction of any business. A local plant of the citrus fruit growers, for instance, represents an initial investment in land and capital and the employment of a manager and a group of laborers. Efficiency demands the

complete utilization of all of them. A volume of business sufficiently large to employ fully the factors of production gives an economic basis for effective marketing.

Further, the scale of operation of a cooperative company should be sufficiently large to insure the greatest efficiency. In keeping with this same principle, the local companies should be united into a federation. The California Fruit Growers' Exchange, for instance, is composed of district and local companies. An organization covering the entire state, as the Oklahoma Cotton Growers' Association, may have no locals and yet be sufficiently large to promote efficient operation. It might be well, for certain purposes, to weld these state associations into one national company. A large cooperative company, in addition to reducing overhead expense, can enjoy advantages in the performance of the marketing functions, i.e., borrowing at a low rate of interest, securing market information, and exerting its influence in price determination. A small cooperative company could enjoy none of these advantages. It perhaps would become a competitor of other local cooperative companies. Much of the cooperative marketing of the past was of this small-scale and hence inefficient sort—a fact which largely explains its failure.

Members. The concentration of members within

a comparatively limited territory is a favorable factor. Their nearness to each other facilitates frequent meetings and fosters acquaintanceship and harmony. The members are more likely to realize their common interests and the desirability of concerted action. Proximity and necessity foster the spirit of cooperation among farmers. Homogeneity of population is also conducive to harmony among the members of a cooperative company. This applies to religion, politics, education, wealth, and particularly to race. Migratory farmers, especially if they are tenants, render cooperative action well-nigh impossible. They cannot develop a community of interest sufficient to insure the success of a joint undertaking. Tenants usually control only a portion of their crops, and hence their agreements to deliver their wheat, cotton, or other products to the cooperative company are fraught with legal difficulties. Farmers attached to the soil through ownership or a long-term lease develop a mutual interest and the willingness to undertake projects for their welfare which require a long period of time. Such a common interest and point of view are prerequisite to the success of cooperative companies. Not the least important characteristic of members, from the standpoint of the success of cooperative marketing, is their loyalty. This quality cannot be developed quickly or easily. It

depends largely upon an understanding and appreciation of the operation and accomplishments of the cooperative company.

Necessity. Necessity of cooperation, arising either from sheer exploitation, gross inefficiency, or mere fate can overcome racial and other obstacles. It arouses the spirit of cooperation. Cooperative companies have their boom during any period of depression, when farmers forget their differences and resort to cooperation for their economic salvation. This indicates the part that necessity plays in influencing farmers, and the outcome of concerted action among them. The prospect and realization of an economic advantage and not cooperation *per se* can effect the organization and continuation of cooperative marketing companies. The success of certain associations, particularly those in California, has stimulated the organization of many cooperative companies without any opportunity to improve existing economic methods. Cooperation possesses no magic. It cannot thrive on mere sentiment. Its justification must be in terms of economic welfare.

Another aspect of the importance of necessity in cooperative marketing is that the product in question must be the main source of livelihood to the members. Their economic life must be identified with the commodity in order to foster a sus-

tained interest in the successful marketing of it. A mere "side-line," something incidental and comparatively insignificant to the farmer, does not lend itself to successful marketing through cooperative action. This explains the usual absence or failure of cooperative companies devoted to raw hides, eggs, etc.

Leadership. The type of leadership of a cooperative company may spell success or failure from the very beginning. The management of the undertaking must be delegated to certain individuals who do not have profit as an incentive. The officers of a cooperative company, in this respect, are analogous to the officials of gigantic corporations who own little stock in their respective companies. But the former are poorly paid while the latter are richly rewarded—a contrast which partly explains the fact that cooperative companies generally are not managed as efficiently as private enterprises. The members of a cooperative company usually are either unable or unwilling to pay sufficient salaries to attract capable managers. This is particularly true of small and inexperienced cooperative companies. This weakness, fortunately, is being overcome. Cooperative companies are becoming sectional or national in scope and are learning the importance of salaries in attracting and retaining managers of the better sort. In other words, as the coopera-

tive company engages in large-scale operations and learns business principles, it is profiting by a higher type of leadership.

LIKELIHOOD OF MONOPOLY

The possibility that cooperative marketing companies may monopolize and restrain trade deserves consideration. Some have predicted that the recent growth of such companies, aided by favorable incorporation laws and legal exemptions from anti-trust statutes, points the way to national monopolies. Their plan of organization and their rapid development would at first blush indicate that monopoly is their goal. To monopolize a product or restrain trade in it, requires, of course, a control of the supply. The question at hand therefore resolves itself into the ability of a cooperative marketing company to regulate the supply of its particular product. It is necessary, in the analysis of this problem, to differentiate between the future output and the existing supply.

Future Output. The ability of a cooperative company to control the future supply of a commodity is extremely questionable. The first reason for this conclusion is the inconsistency of nature as a factor in determining the supply of any agricultural product. Even granting the stipulation of the acreage devoted to a particular

commodity, the total yield would be an uncertainty. Many things which may be attributed to nature, such as temperature and rainfall, are obviously beyond the control of any individual or company. The output per acre may easily vacillate as much as twenty-five per cent from one season to another, because of differences in the growing and harvesting conditions. Drought, early frost, crop pests, etc., on the one hand and the absence of these destructive elements on the other may unexpectedly reduce and increase, respectively, the yield per acre. In this respect farm crops are in sharp contrast with fabricated products. A manufacturer may definitely restrict the output of his particular commodity, for nature exerts no appreciable influence as a deterrent factor. The production of farm products, to repeat, cannot be regulated in this fashion because the elements of nature are largely beyond the control of man.

Moreover, there are thousands of individuals devoted to any one of the many branches of agriculture. Farmers who grow the leading crops, as wheat and cotton, are millions in number. Furthermore, if any certain commodity becomes particularly profitable, its output will greatly increase. It will be grown more intensively and additional lands will be devoted to its production. There are relatively few farm crops in the United

States the production of which is limited to a comparatively fixed area. Citrus fruits, raisins, walnuts, almonds, and dates can be grown advantageously only within a rather limited territory. But experience has shown that the output even of these products can increase unexpectedly and tremendously. The prospect of unusual gain is always miraculous in its ability to bring forth a greater supply. A few years ago the California Seeded Raisin Company apparently considered its position secure because of the limited area in which raisins could be grown. The high prices and attractive profits within the raisin industry encouraged the growers to cultivate their raisin lands more intensely and to increase their acreage. This additional land had previously been undesirable for the growth of raisins, but the prospect of profit from this crop transformed it, economically speaking, into raisin land.

The larger the number of competitors who must agree to a certain program of production, the more difficult it is to reach an understanding among them. This point is well corroborated by the development of industrial combinations of various sorts, in that they have been more difficult to organize and more ready to disintegrate if composed of several erstwhile competitors. If the existence of dozens of companies in the manufacturing field presents serious obstacles to the

creation of such organizations, then surely one must conclude that thousands or millions of farmers in a particular kind of agriculture would prevent their attainment of a monopoly. Imagine the endless and hopeless task of inspecting and enforcing the decree of any cooperative marketing company as to the output of its many members!

In general, then, farmers who grow any one crop are already large in number, often running into millions. Further, they can cultivate their land more intensively and devote additional acres to any particular use. This situation precludes any prospect within the realm of certainty of the control over the future supply of any farm product.

Existing Supply. The second aspect of the ability of a cooperative company to monopolize an agricultural commodity relates to the existing supply. Can a cooperative company to which most of the growers of a particular product belong manipulate the existing quantity and therefore the price? The answer depends largely upon the perishability of the commodity and the degree of local autonomy. If the product is highly perishable, it must be disposed of immediately. It is futile to consider the possibility of withholding the supply and feeding it to the market at a specified price. The situation is one of a fixed

quantity, perishable in nature, which must be put on the market and sold at the best prices obtainable in view of the existing demand. The most that the cooperative company can do under these conditions is to utilize the full force of the entire demand for this fixed supply. It can through its representatives and otherwise find the best available markets for the product, but it cannot, as already stated, withhold the entire quantity and dictate the price. The assumption is made that the cooperative company will not destroy a part of the supply.

If the cooperative company is sectional or national in scope, its ability to control the existing supply and therefore the price of a product depends largely upon the amount of autonomy which its local or constituent companies retain. Some of the national organizations are made up of local or district exchanges which may exercise a certain amount of discretion in the disposition of their products. If the members of the local exchange can, through their board of directors, dictate the minimum price which they will receive for a particular shipment, it is obvious that such decentralization of control would prevent effective tactics by the national company in dictating and maintaining a uniform price.

These two conditions—perishability and local autonomy—are well illustrated by the California

Fruit Growers' Exchange. Citrus fruit is perishable and therefore must be disposed of within a short period of time. It cannot be withheld and fed to the market, so to speak, in order to maintain a certain price. The most the Exchange can do is to ascertain market conditions throughout the United States and then, in view of such facts, sell the fruit as advantageously as possible. Moreover, each local exchange retains the privilege of stipulating its minimum price. This means that the function of the Exchange is to find a market, if possible, where this or a better price may be secured. Such action on the part of many locals, together with the perishability of citrus fruit, precludes any likelihood of monopoly.

On the other hand, a non-perishable product marketed by a large cooperative company which either has no local companies or which permits them no autonomy, may be the subject of a temporary monopoly. An organization of this sort, because its product may be withheld from the market without deterioration and because it dominates in the price-making process, may be able effectively to control the existing supply of a product and therefore its price. A few years ago the California Seeded Raisin Growers' Association accomplished this particular result. It held back the season's crop of raisins and demanded a high price for them. This control, however, lasted

only a short time. There was a much greater production of raisins, though contrary to the advice of the Association, with a resultant collapse in price.[2] In other words, although this company could control the existing supply and therefore the price of it, it was unable to dictate the production of the future. Its monopoly was short-lived and ill-fated.

Summary. In summarizing the possibility of monopoly among cooperative companies, it may be said that a permanent monopoly by controlling future supply is impossible, on account of the part that nature plays in determining output and the inability to dictate the acreage and methods of cultivation of thousands or even millions of farmers. Second, the prospect of prescribing the price of the existing supply, in other words, of enjoying a short-time monopoly, depends primarily upon the perishability of the product and the degree of local autonomy among the constituent parts of the cooperative company.

CONCLUSION

Unquestionably the potency of cooperation in alleviating the defects of our present marketing system is subject to considerable exaggeration. The conspicuous success of certain associations,

[2] Also, the legal action of the Federal government against the association contributed to the break in the price of this commodity.

particularly in Florida and California, has led many to opine that the same result can be achieved for all farm products in the United States. This belief at the present writing, in 1928, is widespread, especially because of the propaganda from certain political sources to placate the farmers and thus to prevent their demand for price fixation and allied schemes. The advocacy of cooperation as a universal remedy for agricultural ills furnishes an excellent illustration of the fallacy of reaching a general conclusion from a few specific instances.

The merits of cooperative marketing, as already suggested, depend upon various factors. The commodity basis of cooperation and a pool of short duration promote the success of cooperative associations, while patronage dividends and a prolonged pool invite failure. Other factors besides the plan of organization are likewise important in determining the outcome. But one cooperative company may succeed and another fail though both are alike in plan of organization, volume of business, nature of membership, and quality of leadership. Witness the divergent results of cooperative associations in the United States. Many of them, patterned after the California companies, engaged in a considerable volume of business, composed of intelligent members, organized during the agricultural depression of

the present decade, and directed by capable leaders, have enjoyed only a small measure of success; and some of them have failed completely. This situation applies especially to those companies composed of cotton and wheat growers. The explanation lies in the decided limitation of their potential capacity to effect improvements.

Most of the essential functions, in marketing cotton, for example, must be performed approximately in the same manner and at the same cost under a cooperative régime as under the orthodox system. Assembled at local points and central markets, graded according to definite standards, stored in warehouses, transported by rail and boat, and disassembled to converters, this commodity, so far as the physical functions go, has undergone no change because of cooperation. Further, it is sold, as formerly, at prices based on supply and demand and registered on the exchanges.[3] Financing and the assumption of risk are yet necessary. The cooperative company, by reducing the number of samples taken from each bale, has brought about a slight saving. It is able to borrow money advantageously in order to withhold the cotton and finance the members in

[3]It is true that some of the cotton associations have indicated that they expect to modify the price through "orderly" marketing. No evidence exists, however, of their attainment of this objective In fact, one of them, in Oklahoma, now permits a member to designate the time for the sale of his cotton—a new arrangement designed, presumably, to obviate the difficulties of a pool of long duration.

the interim. There may be less risk for the members because the pool brings into play the law of averages. Moreover, the ignorant farmer escapes exploitation by an unscrupulous buyer. But these advantages deserve no particular emphasis because the members, it would seem, generally do not receive higher prices for their cotton than outsiders do.

There is evidently little opportunity of decreasing the cost of marketing cotton through cooperation. This commodity, owing to its durability, does not require quick and concerted action for its disposal. It had well-known standard grades before the advent of the cooperative movement. A world market determines its prices from day to day, and these are accessible to all. Moreover, at any instant they are uniform, allowing, of course, for differences in location. The Department of Agriculture gathers data periodically as to the condition of the crop, the output of gins, etc., which is available to farmers. The association apparently can exert no influence upon price determination. The inelastic demand for cotton leaves little possibility of augmenting sales through advertising and salesmanship. The association, to repeat, has little prospect of performing the marketing functions more efficiently. As already indicated, its present methods and results are practically the same as under the orthodox system.

Consequently from the standpoint of either the farmer or the public, little gain can be realized from the cooperative marketing of cotton.

On the other hand, large companies, like those of California, engaged in selling perishable products in distant markets have the opportunity of realizing economies. Such commodities, as citrus fruit, demand quick and united effort for their effective disposal. By obtaining information from its representatives as to market conditions throughout the country, the association can direct shipments so as to obviate spoilage, unnecessary transportation, and other losses, and to secure the greatest financial returns from its sales. The individual farmer, unable to store his product or to obtain adequate information as to prices, is at a disadvantage in the market. Through united action his bargaining ability becomes equal to that of the entire group. He and his associates lift themselves, so to speak, to a more advantageous position in the disposal of their commodities to buyers. The association can standardize grades and methods of packing that expedite marketing. In this respect the most outstanding success has been achieved by the cooperative companies devoted to fruits and vegetables. An inelastic demand may be developed to an appreciable extent through advertising and sales methods which only a large association can

afford. In these ways and under these conditions the cooperative company may accomplish improvements. It may render marketing functions more efficiently if potentialities of improvement exist. In doing this it promotes the pecuniary gain of its members and in addition the welfare of society.

CHAPTER VIII

INDIVIDUAL INITIATIVE AND GOVERNMENT ACTION

REDUCTION OF THE COST OF MARKETING

THE preceding chapters have considered various factors that increase the cost of marketing. Higher quality, greater variety, prevalence of style, changed relation of consumer to marketing functions, and excessive salesmanship pertain largely to demand; while the wider separation of production and consumption, disregard of cost, indirect subsidies, and a greater emphasis of media rather than functions affect supply particularly.

Less Emphasis of Quality, Variety, Style, Services, and Salesmanship. Since the first set of causes relate to demand primarily, the inference is that their removal depends mostly upon the initiative of the individual. So long as the consumer insists upon excellence, variety, style, and special services, or responds readily to their availability, he should expect to pay toll in the form of higher prices. But if he will forego them,

the ultimate consequence will be lower charges. The consumer should utilize the opportunity of buying goods which do not require refrigeration, individual containers, and other facilities that augment the cost of marketing. If he were content with less variety, it would be possible to simplify marketing and merchandising to an appreciable extent and thus prepare the way for economies. Commodities would not be brought from remote places as at present. There is little likelihood that individual initiative can be effective in detracting from the importance of style. Various factors, such as prosperity, competitive consumption, and cosmopolitan standards, entrench fashion as an influence in modern life. The willingness of consumers to buy in larger units, to pay cash, to carry their purchases, and to forego other special services would undoubtedly promote economies in the sale of goods. Less salesmanship would obviously decrease the proportion of the consumer's dollar which goes to marketing expense.

But the exercise of individual initiative presupposes a sufficient inducement. Obviously the consumer will not forego certain qualities and conveniences without reward. For example, he will not pay cash rather than partake of credit unless the former method makes possible lower prices than the latter. The cooperation of manu-

facturer, railway, merchant, and others is essential to the realization of economies in the sale of goods. Some of them should present alternatives to the present system of marketing. They should offer the consumer the opportunity and incentive to practise economies. Stores, for instance, which emphasize low prices rather than alleged superiority, variety, style, and special services should be available to the public. Cash-and-carry grocery stores, so-called, already represent a movement in the right direction. Sales on this basis at lower prices could be extended to other merchandise. But many other economies may be effected in marketing. More goods may be safely and economically sold in bulk rather than in packages. They should be offered on the basis of grades rather than brands. This would mean a smaller stock of goods and a higher rate of turnover; the exposure of inflated values of advertised products; and the ability of a manufacturer to find an outlet for his products. Purchases in larger units would obviously effect economies. Obtaining commodities from less remote sources would mean a saving in refrigeration and transportation. Stores might have a more economical location and less expensive equipment. Special services, for which the consumer pays dearly, might be dispensed with. The quest and realization of the foregoing economies would leave little occasion for the

exercise of excessive salesmanship, especially the "high-pressure" type. These suggestions indicate that, in the name of economy, products and methods of sale may be greatly simplified and standardized.

It remains to have aggressive manufacturers and merchants and receptive consumers, all in search of gain, to take advantage of the possibilities of reducing the cost of marketing. In this connection one should consider the stores of manufacturers, especially those of the Ford Motor Company in Detroit, as a means of effecting the maximum economies and thus of reducing the cost of living of their employees. They constitute an interesting and commendable experiment in simplifying the marketing functions and in enabling the consumer to purchase goods at lower prices. Stores of this sort will undoubtedly tend to prevent an excessive number of retailers and to increase the efficiency of those who survive. Only establishments with a large volume of business can withstand their competition. The experience of the public with stores like those of the Ford Motor Company will lead undoubtedly to a demand for more economical methods in the whole field of marketing, among middlemen especially, so that the proportion of their dollar absorbed in the process of selling goods will become appreciably less.

The whole problem of placing less emphasis upon excellence, variety, style, and special services which sellers offer and buyers demand at present, resolves itself into giving more attention to price and less to quality and service. If the plane of competition shifts primarily to price, it will necessitate economies in making and selling goods. The general education of the public as to the costs of marketing and the methods of eliminating and reducing them would promote individual and collective action for effecting improvements. In other words, it would direct attention to price rather than to alleged quality and service.

Closer Relationship of Production and Consumption. The discussion in chapter III of the wider separation of production and consumption suggests some of the means for effecting improvements. The first prerequisite is education of the public to the necessity of giving more attention to the problems of marketing. Raising and manufacturing products will always remain important, of course; but they should not be emphasized to such an extent as to neglect the most efficient system for selling them. There should be a proper balance between *making* and *marketing* commodities. The arrangement for the greatest satisfaction of wants with the least cost should consider both and not merely one of them.

The present situation would indicate that a

more decentralized system of production would promote economies in some industries. A better distribution of the factories in the shoe, textile, and other industries from the standpoints of raw materials and markets, though their size remains the same, would obviously reduce the amount of transportation and other marketing functions.

In addition to less concentration in the location of factories, a greater number of them as a result of production on a smaller scale would obviously bring the producer and consumer closer together. Such an arrangement would mean proximity to either raw materials or markets or both. For example, more manufacturers of corn flakes in different parts of the country instead of two important ones located in Battle Creek, Michigan, would reduce the cost of marketing this commodity. Production of various products on a smaller scale in order to have more factories in different sections of the country would not necessarily increase the cost of manufacture. In fact, in many industries today the most efficient enterprises are not the largest ones.[1] Certain activities, of course, require large units of capital, a reduction in the size of which might increase costs of fabrication. But this disadvantage might be

[1] Various investigations of industries, as those of the Federal Trade Commission, support this statement.

easily offset by the resultant savings in the disposal of their products.

This problem will adjust itself appreciably in the course of time. Already considerable progress has been made in this direction. Witness the migration of various industries from the North and East to the South and West. Old plants are abandoned, and new ones constructed in more desirable locations. But this change should be hastened rather than retarded by railway rates and other factors for which society is responsible. A perverted rate structure to keep alive the poorly located factories deserves condemnation. Even more reprehensible is the provision by general taxation of canals and other means of water transportation so as to force down railway rates and thus to overcome the remoteness of certain establishments from their raw materials and markets. The decided restriction of immigration as a permanent policy will eliminate cheap labor as a factor in the perpetuation of inefficient industries in the New England and Middle Atlantic states. Recent legislation in the South and West constitutes an invitation to new capital for which those sections are well adapted. In a few decades this country should witness a more complete relocation of factories on the basis of the natural advantages which different localities offer. The difficulties of management and the rising costs of

marketing should encourage smaller establishments. Freight rates graduated according to distance would aid in the accomplishment of this result. The motor truck, suitable for short hauls primarily, will also be a contributing factor.

As these changes are effected, there will be a check upon the concentration of population in large cities and in particular sections of the country and to that extent a closer association, geographically speaking, of production and consumption.

The insistence of consumers upon products from near rather than remote places would be helpful in shortening the time and distance between production and consumption. But they cannot be expected to do this so long as the rates of railways, the price policies of manufacturers, and other artificial factors necessitate little or no variation in the price of a product according to the length of shipment. These artificial factors should be rectified so that the consumer will have an inducement to consume local products at low prices.

Consideration of Cost. Cost furnishes one of the principal guides to economic activity. The determination of the prices of products and services regardless of the actual amounts of land, labor, capital, and enterprise that enter into their creation and marketing is in itself a vicious and

wasteful practice. It violates the law of comparative advantages and thus prevents the attainment of the maximum efficiency in marketing or any other activity. The objection to the disregard of cost, as previously intimated, may be presented from the standpoint of the buyer. He has no inducement to practise economies if prices fail to reflect actual costs. There is no incentive, for example, to pay cash rather than secure credit if the merchant charges the same price in either instance; or to place an order with the nearest factory if its prices are determined by the cost of another plant in a distant locality, and if the railway ignores distance in the fixation of its charges. Prices conforming more closely to cost would encourage purchases on a cash basis and from the nearest source of supply, and the practice of other economies. The consumer should have an economic opportunity for effecting savings.

Discontinuance of Indirect Subsidies. Disregard of cost, as already stated, obviously defies one of the cardinal principles of economics. If fostered and sanctioned by the government, it amounts to an indirect subsidy and becomes particularly objectionable. The alleged purpose is the promotion of competition, especially in the field of transportation. Chapter III contains an analysis of this situation, illustrated by the relationship be-

tween railways and automotive carriers. The discussion of the remedy refers to automotive transportation specifically, but the conclusions apply also to water transportation and other examples of indirect subsidies.

The question of the relationship between automotive transport and railways is of great moment. Today some of our railways are being driven into bankruptcy while others are actually being abandoned, largely because of automotive competition. Paved roads and short hauls, as in New England, are most conducive to this result. Recently the Boston and Maine asked permission to scrap hundreds of miles of its railway. Similar requests have been made by other railways. Within the ten years, 1914 to 1924, more railway mileage has been abandoned than constructed. It is conceivable that one hundred years from now the railways will be streaks of rust. This must happen—the railway must give way to automotive transport as the canal succumbed to the railway—if economic progress demands it. The writer holds no brief for the railway as such. But he does contend that the competitive struggle between these two means of transportation for determining which shall dominate should be sound, for otherwise there are no trustworthy criteria for ascertaining the superiority of the one over the other. Compel both automotive carriers and railways to

pay their own way, and subject both of them to the same measure of regulation. Both are in effect common carriers and therefore should be treated alike. Let the result of equal treatment guide us in choosing the transportation system of the future. Available information indicates that the railway would demonstrate its greater efficiency.

Lastly, though fairness between the two means of transportation should prevail, the automotive should not be permitted to compete directly with the railway, provided the latter can still take additional traffic with comparatively little increase of expense. Two means of transportation should not be encouraged when one of them already serves the public adequately and economically. To support two kinds of transportation when one kind would suffice, means that the public must bear an additional and unnecessary burden. It is to the economic interest to utilize the railway completely before resorting to another kind of transportation.

Emphasis of Functions Rather than Media. Experience has demonstrated many times that a more efficient marketing system cannot arise merely from the elimination of the so-called middleman and his "profit," in other words, from the substitution of one instrumentality for another. Various kinds of cooperative associations have

tended of late to evaluate anew the services of the middleman. Disillusionment has brought to their members the realization of the necessity of performing certain functions in the disposal of goods, and the importance of utilizing the most effective machinery—no matter whether controlled by co-operative organizations or private initiative—for the performance of them. The California Fruit Growers' Exchange, be it noted, has not sought to eliminate the jobber and retailer so as to sell directly to the consumer. Presumably this company takes the position that these middlemen are more efficient than it would be itself in rendering particular services. Moreover, no causal relationship exists between the number of middlemen and the degree of efficiency. The entire situation resolves itself into an appraisal of the conditions and agencies under which the marketing functions can be performed with the least cost.

LESS AND BETTER ADVERTISING

The amount of advertising has increased tremendously within recent years, and the character of it has changed in various ways. To what extent, if any, can its quantity and quality be altered in the interest of society?

Less Advertising. The first check upon the quantity of advertising may be an aroused public opinion. The present agitation against billboards

is having its result; an effective organization of it would undoubtedly lead to an abatement of the nuisance. Advertising of other kinds may be modified by the determined opposition of society. The education of the people concerning its expensiveness and psychological technique, in short, its methods, purposes, and results, would bring about an unfavorable reaction and make it lose a part of its effectiveness. Whenever this happens appreciably, advertising will suffer a setback, for it will not be so financially profitable.

Advertising may decline because of a closer and more definite analysis of its results. As already explained, one reason why it is used more excessively than salesmanship is that the effect of the former cannot always be readily measured while that of the latter can be. Advertising, subjected to an increasing amount of experimentation and statistical research, is being used more advantageously now than formerly; but analysis of this sort has definite limitations in checking its results and in discovering its shortcomings, since a considerable proportion of it is for the purpose of developing good will.

The income tax law allows liberally for advertising as one of the expenses to be deducted in determining net income. A business concern subject to a high rate of taxation is tempted, of course, to expend the maximum allowance for

advertising. Some businesses have sought, under such conditions, to build up good will which may be realized upon in the future when the tax rate becomes considerably lower. Less allowance for advertising as an expense or a lower income tax rate would be important factors in reducing its amount.

For his services the advertising agent should receive a fee directly from the advertiser instead of the so-called "commission" from the publication. This change in the method of compensation would undoubtedly tend to lessen the amount of advertising. In justice to the advertising profession, one should add that such a basis would be welcomed by many agents.

Lastly, one may expect united action on the part of competitors to reduce the amount of their advertising. As explained previously, much advertising is for the purpose of maintaining one's relative position in the market. A great campaign by one concern leads to retaliation by competitors as a matter of self-defense. This statement is borne out by the cycle of competitive advertisements, one following the other in a vicious circle. Competitive advertising is very burdensome in those industries where psychological atmosphere is of great consequence in selling goods. This situation, like cut-throat prices, may find its remedy in the failure of some of the enterprises or in their

agreement to curb themselves in the future. The restraint may take the form of an understanding that each concern limit its own expenditure for advertising according to a prearranged basis, or that all of them contribute moderately to a project of advertising their industry—a class of products—rather than their individual brands. It should be pointed out in this connection that one reason for the Webb-Pomerene Act was to enable American competitors, in selling abroad, to advertise collectively rather than separately. Illustrations of collective advertising are found in the cement and structural steel industries. Within each of these two businesses there are only a few competitors, and therefore an agreement to limit advertising to the industry was comparatively easy. But in this particular situation another step might well have been taken—an agreement not to advertise either industry. The advertising of steel tends to offset that of cement, and vice versa. Therefore both industries are engaged in a wasteful practice which may be checked by mutual understanding. Agreements of this sort, perhaps under governmental supervision, to prevent such social waste, should be encouraged. There would be no reason for alarm, at present anyhow, when big business is excused from practices which are more questionable.

Better Advertising. Competitive advertising—

the necessity nowadays of having advertisements that excel many others—has led to more artistic illustrations and better copy. This improvement will continue as the intensity of competition in advertising becomes greater.

One charge against the advertising of today is its use of subtle vulgarity, especially in the form of sex appeal. A broader aspect of this criticism is that advertisements, more and more, are emphasizing the materialistic phase of life by overdoing the stimulation of the desire for sordid pleasure and by exaggerating the rôle of competitive consumption in promoting the welfare of the individual. The education of the people as to the purpose and technique of advertising, and the likelihood of a general reversal in the present trend toward materialism, may force a change in the kind of appeal which advertisers employ. Of course, advertising itself, whatever the appeal may be, will be guided in the future as now by pecuniary gain.

It is alleged that an ever-increasing proportion of advertisements are truthful. This statement brings up the old question of what constitutes veracity. If truth means accuracy of detail, no misrepresentation of relative values, no undue enticement of the individual, no misleading implications, then there is little truth in advertising. In the most alluring advertisements, those that

strive especially for psychological atmosphere, do the pictures accurately reproduce the appearance of the goods? Is the big, round, red, juicy tomato the only kind found in canned tomato soup? Isn't this kind of advertising analogous to the practice of the truck-farmer who places the best tomatoes on top when he comes to sell them? None of the finer and more reputable advertisements—the kind to which advertising agents and managers point with pride—are truthful, strictly speaking, because they contain an appreciable element of exaggeration, misplaced emphasis, or misrepresentation. Moreover, the amount and degree of such deceit is apt to grow as competitive advertising and the necessity of psychological appeal become stronger. On the other hand, if veracity means freedom from downright falsehood, then advertising is becoming more truthful and therefore of a better quality. The relative number of downright misrepresentations in advertising has diminished and is still diminishing. This improvement has been brought about by both voluntary and involuntary action—by the realization of the business man that truth in advertising pays, and by governmental compulsion.

Difficulty of Reform. As has been suggested already, much of the possible reform of advertising depends upon the education of the public. This fact discloses immediately the difficulty of secur-

ing improvement. Magazines, newspapers, and other media which control the channels of publicity and therefore which are instrumental in shaping public opinion, depend largely upon advertising for a livelihood. Those whose very financial existence depends upon advertising are not likely to lead the attack upon it. On the contrary they are apt to encourage it. The best advertisers of advertising are those who partake of its financial rewards. To bite the hand that feeds would be not only ingratitude but business suicide. Consequently most of the public opinion of an unbiased sort which must prepare the way for reform in advertising must come from other sources, particularly from economists whose point of view is the economic welfare of society.

PREVENTION OF ACQUISITIVE PRACTICES

Acquisitive practices obviously have no economic justification. They include monopoly, unfair competition, protective tariff, abuses of trading in futures, particular kinds of advertising, and certain aspects of style. Among the possible means of eliminating these evils in marketing are the following.

Preservation of Competition. An obvious proposal is the thoroughgoing enforcement of the Sherman, Clayton, and other Acts against industrial monopoly. These statutes might well be

strengthened by additional laws to prevent their emasculation through judicial interpretation. Preserving or restoring competition in industry still seems possible and desirable. Moreover, the present opposition of the public to the extension of governmental activity in the form either of ownership and operation or of regulation of prices and services, and the existing standards for the selection of government employees, suggest the inadvisability of experimenting with policies other than the traditional one for dealing with the trust problem. The elimination of monopoly and its acquisitive practices would help to reduce the cost of marketing goods.

Particular attention should be devoted to the recent activities of trade associations and to recommendations concerning them. Several years ago there was considerable advocacy of the so-called open-price association.[2] Many organizations, seeking a legal means to restrain trade, proceeded to modify and adapt such a form of association to suit their purposes. Some of the trade groups assumed new functions under the guise of the "Open Competition Plan." In structure rather than in function they resembled the open-price association as originally proposed.

The first legal test of these organizations arose in connection with the activities of the Hardwood

[2] See Eddy, *The New Competition*.

Manufacturers' Association.[3] The United States Supreme Court, in 1921, held that its purpose and effect were "to restrict competition and thereby restrain interstate commerce in the manufacture and sale of hardwood lumber by concerted action in curtailing production and in increasing prices,"[4] and therefore violated the Sherman Act of 1890. In 1923 the same tribunal rendered a similar opinion in reference to an association in the linseed oil industry.[5] Two years later, in 1925, in considering the legality of the Maple Flooring Manufacturers' Association,[6] it declared: "We decide only that trade associations or combinations of persons or corporations which openly and fairly gather and disseminate information as to the cost of their product, the volume of production, the actual price which the product has brought in past transactions, stocks of merchandise on hand, approximate cost of transportation from the principal point of shipment to the points of consumption, as did these defendants, and who, as they did, meet and discuss such information and statistics without, however, reaching or attempting to reach any agreement or any concerted action with respect to the prices or production or restraining compe-

[3] 257 U.S. 377.
[4] *ibid.*, p. 412.
[5] 262 U.S. 371.
[6] 268 U.S. 563.

tition, do not thereby engage in unlawful restraint of commerce."[7] The Court went so far as to say that persons are "not engaged in unlawful conspiracies or restraint of trade merely because the ultimate result of their efforts may be to stabilize prices or limit production through a better understanding of economic laws and a more general ability to conform to them."[8] At the same time the court announced a similar decision pertaining to the Cement Manufacturers' Protective Association.[9] It should be noted that the court divided, six to three, in these two decisions.

To what extent and under what conditions should associations of manufacturers be permitted to exchange information as to prices, production, etc.? What safeguards should be imposed to prevent an undue restraint of trade? These associations, as operated at present, are at least potential dangers to economic society. As a rule, they are composed of a few sellers only, their operations are not open to the public, and they discuss the costs of members and the conditions of the market. In these important respects such organizations differ from grain and other exchanges; the latter cannot be logically cited to justify the former. Compel the association to ad-

[7] *ibid.*, p. 586.
[8] *ibid.*, p. 584.
[9] *ibid.*, p. 588.

mit buyers, brokers, and others as members; to submit to publicity and government supervision; and to refrain from the discussion of cost of manufacture and other factors that determine prices. Merely to restrict the interchange of information to past transactions is absurd since the immediate past is always the foundation of restraint of trade in the future. The organizations, even under these conditions, should be confined to those industries composed of an appreciable number of competitors. From this standpoint an association of shoe manufacturers would be preferable to one of steel companies. Also, the members should be somewhat of the same size and importance, no one of them overshadowing the others; here again an association in the shoe industry would be preferable to one in the steel. If the associations conform to these suggestions, they would be closely analogous to the exchanges and to that extent the public would be protected from the abuse of their activities.

Promotion of Fair Competition. Fair methods of competition should prevail so as to encourage efficiency in the making and marketing of goods. Unfair methods of competition will probably be curbed more and more as the activities of the Federal Trade Commission expand. In exercising its power to restrain the use of "unfair methods of competition in commerce," it has already or-

dered many concerns to "cease and desist" from unfair practices. The work of the Commission in building up higher standards of competition deserves whole-hearted support. Much may be accomplished, perhaps under its guidance, in promoting fairness in marketing methods through the voluntary action of business men. Moreover, the increasing extent to which people are becoming acquainted with selling methods makes it constantly easier to arrive at an individual judgment and to clarify public opinion in differentiating fair and unfair practices.

Both governmental and cooperative action may be helpful in modifying those evils which arise from differences in bargaining ability. There is nothing illegal, of course, in one concern driving a better bargain than another because of its greater size and experience. The government, however, should gather and disseminate more data concerning market conditions, especially in reference to perishable commodities. It already does this to an appreciable extent for cotton and other farm products. This service should be improved and extended to other commodities. For instance, daily reports should show the number of cars of each kind of fruit and vegetables loaded for shipment, their destination by cities or sections of the country, and the prices which prevail in various places. Only on the basis of data of this

sort can the individual of very limited experience bargain successfully with the large enterprise. In this way the government could promote a fair and efficient disposal of perishable and other products. As indicated in the preceding chapter, concerted action by individual farmers raises the plane of competition. The cooperative association may increase the size of the business unit, obtain market information, and in other ways improve the bargaining ability of its members. The government should foster organizations of this sort. It ought to encourage the collective purchases of small retailers in their effort to meet the competition of the chain store, and similar activities of other individuals, as well as cooperation among farmers. To repeat, much of the unfairness in marketing is an acquisitive advantage arising from differences in bargaining ability, and any measure for the improvement of this situation deserves consideration.

Modification of the Tariff. There should be no tariff on those products in the manufacture and sale of which this country is unquestionably less efficient than foreign nations. The imposition of duties on articles in the production of which this country compares favorably with other nations and in the sale of which competition prevails, exerts no particular influence upon the cost of them. If, however, they are subject to monopolis-

tic control, there ought to be either a removal of the tariff or the imposition of a domestic tax as an offset. The one would insure minimum prices and the other higher prices due entirely to taxation. A tariff on unidentified products for which this country is on an exportation basis is obviously absurd. A tariff constructed in the light of these principles would eliminate certain acquisitive practices that augment the cost of marketing goods.

Regulation of Trading in Futures. In spite of recent measures, such as the Grain Futures Act of 1922 and the adoption of a clearing house by the Chicago Board of Trade in 1925, much remains to be accomplished in alleviating the evils of trading in futures. All rules and regulations that would eliminate the incompetent trader, without unduly hampering the legitimate activities of the exchanges, should be encouraged. The most feasible measure perhaps for attaining this objective would be the requirement of wider margins by outsiders. This would place decided limitations upon the gambler and the extent of his operations; and also would largely remove the necessity of making excessive purchases or sales, usually the latter, because of the depletion of narrow margins. Both of these improvements would foster prices which are more stable and more in accord with true economic conditions. Another reme-

dy, though somewhat drastic and difficult to administer, would be the complete prohibition of trading in futures by outsiders except for hedging purposes.

As to the manipulation of futures, the problem is to prevent it without impairing the usefulness of the exchange for hedging and for the determination of prices. Considerable latitude in buying and selling is essential to the performance of these functions. But sudden and erratic changes in prices defeat the purpose of the exchange and demand measures for the prevention of them. A limitation of the extent to which a speculator may buy long or sell short within a day seems imperative. Excessive transactions by one trader indicate a purpose and trend toward results not in keeping with public welfare. Getting in and out of the market more slowly and moderately would tend to stabilize prices. In this connection one should remember that the manner in which sales or purchases are made is very important in determining the course of prices. Regulation now limits the extent to which the prices of cotton futures may fluctuate within a single day, and it seems advisable to apply such a restriction to grain and other futures. Such an arbitrary measure would be helpful at times in preventing the extreme and artificial movements of prices caused by manipulation or the "technical condition" of the mar-

ket. Further, terminal warehouses and elevators ought to be public utilities in fact as well as in theory. This applies especially to elevators; they should be operated by the railways, which own many of them, or other companies not engaged in the grain trade. The control of them by large grain concerns leads to discrimination and other unfair practices. If all dealers were on an equal footing in the use of storage and other facilities of terminal elevators, there would be less concentration in the grain trade, especially in futures, and therefore less likelihood of manipulation. Lastly, representatives of the public should participate with committees of the exchanges in the adoption and administration of rules pertaining to corners and other matters of importance to economic society.

All of the operations of exchanges, especially in futures, should be subjected to close and fearless and constant scrutiny so as to check any development in conflict with public welfare. The Grain Futures Administration of the Department of Agriculture, established in 1922, already provides the machinery for attaining this objective in the grain trade. Further, there exists a need for greater publicity of the operations of the exchanges. General statistics concerning the kind and amount of transactions in futures ought to be revealed to the public from day to day as

opening and closing prices and other data are at present. They should be arranged according to the class of traders. Transactions of members of an exchange ought to be differentiated from those of outsiders; and the trades of members classified on the basis of warehouses or elevators, scalpers and other types. The data should also indicate the volume of trades by options that are open. It would be preferable, of course, for the exchanges themselves to exercise their initiative in effecting these and other reforms; but if necessary, and in all probability it will be, the government ought to prescribe and administer the remedy.[10]

Less Effectiveness of Advertising. Some of the acquisitive aspects of advertising may be modified as a result of several forces. The Federal Trade Commission and other governmental agencies already condemn false and misleading advertising as unfair. Organizations of manufacturers, merchants, and other business men parade their efforts to make advertising truthful. But the government and individual initiative are limited by law and self-interest, respectively, in curbing advertising which enhances the prices of products.

[10]For a detailed discussion of the possible remedies of the evils of trading in futures, the following references may be cited: Federal Trade Commission, *Effects of Future Trading, 1926*; Department of Agriculture, Bulletin No. 1479, *Speculative Transactions in the 1926 May Wheat Future*; and Senate Document No. 135, 69th Cong., 1st Sess., *Fluctuations in Wheat Futures.*

Only the education of the consumer and the development of individual resistance to the psychological appeals of salesmen and advertising, particularly of the latter, can effectively check the exploitation of his present weakness as a buyer. The recent exposure of the inflated values of certain articles has led many purchasers to doubt the subtle claims of various manufacturers. As people learn more of the psychology and expense of advertising and of the consequent margin between the cost of manufacture and the retail price, they will employ different standards in appraising the value of commodities. As a result, advertising of an acquisitive nature, having lost much of its appeal, may be discontinued.[11]

Likelihood of Style. Much of the acquisitiveness in connection with style seems unavoidable unless one assumes a degree of government control which would be repugnant to the American people. Style at present is an important part of the environment, and most people assume the necessity of accepting it. The defiance of fashion by isolated individuals can produce no widespread improvements. The arousal of public opinion against style and the acquisitive practices which it makes possible is not likely.

[11] For a more detailed discussion of the improvement of advertising, consult another part of this chapter, pp. 222-8.

RELATION OF THE GOVERNMENT TO MARKETING

Any consideration of the rôle of the government in marketing raises the general problem of the relation of the state to economic activity, but this treatise is not the proper medium for the discussion of this controversial question. Abstract principles and experience indicate that, as a rule, the government should not be an active participant in business. Nevertheless it has an important function to perform, in a supervisory capacity, in promoting the efficiency of cooperative and individual activities. Without owning or operating any business, the government may insure the conditions and the rules under which marketing and other economic activities may conform to public welfare.

As already indicated in this and other chapters, various activities of the government may foster a more effective system of marketing. Without determining prices itself, it may secure and disseminate market information so that cooperative organizations and individuals may proceed more intelligently in buying and selling. The Federal Reserve System should be administered to prevent extreme variations in economic conditions and therefore to lessen risk in marketing as well as in other fields of economic endeavor. Credit facilities, as provided by different banks, may

reduce the cost of financing. The government may regulate storage facilities so that they will be available to all upon equal terms. It can prescribe uniform, convenient, and economical containers; encourage less variety in the sizes, shapes, colors, and designs of products; and in other ways reduce the cost of assembling and disassembling. Public authority can prevent the wasteful duplication of transportation and other physical means of performing the marketing functions. The government ought to ascertain the most suitable criteria for determining the grades of all kinds of commodities and to require every product or its container, as feasibility permits, to bear its grade or definite data by which the purchaser may judge its attributes. For example, on every can of motor oil let the official grade or data appear, and not merely the claims of the refiner. As indicated in another part of this chapter, such a requirement would do much to expose the fictitious and inflated value of advertised products. Give the consumer an opportunity to buy on the basis of intrinsic attributes rather than of "psychological atmosphere." The findings of the Bureau of Standards in reference to the products of many manufacturers should be available to the public—and not merely, as at present, to the departments of the Federal government. Other nations, such as England, furnish similar informa-

tion to any individual who wants it. Various states and municipalities in our country might advantageously undertake this function in behalf of the public. Already private organizations, as the American Medical Association, are assisting the consumer to make intelligent decisions. Unbiased facts from these sources, relating to specific products, would improve the quality of advertising and reduce its amount; make production correspond to consumption; and place marketing in its entirety upon a sounder and more economical foundation. The Pure Food and Drugs Act and similar laws should be strengthened and extended to prevent fraudulent advertising as well as the sale of impure commodities. Further, the government may experiment continually in its search for better methods of performing the marketing functions. By means of favorable incorporation laws and other measures, it may encourage the formation of cooperative associations and other organizations for improving the marketing system. Lastly, the government should assert itself in curbing all acquisitive practices and in general in fostering a higher plane of economic activity. Its constant objective ought to be the encouragement of social efficiency.

CONCLUSION

In considering and applying remedies for the

betterment of the entire system of marketing, it is necessary to keep in mind certain general principles. First, various problems should be differentiated according to whether they pertain primarily to production or distribution. If they relate to the former, any reform must consist of the adoption of more effective means for the rendition of certain services; and if to the latter, of the elimination of acquisitive practices. Associated with this distinction is the contrast between social and pecuniary efficiency. The first of these two concepts rests upon the maximum utility at a minimum cost of the factors of production; the second, merely upon the amount of profit. The two may coincide, but not necessarily. Concerns which engage in wasteful practices may make a creditable financial showing. Their success may arise from a superior bargaining ability. This factor must be considered, for instance, in passing judgment upon chain stores. Their profits and prices, though suggesting efficiency, may arise partly or entirely from the ability to drive hard bargains in the purchase of merchandise. A buying syndicate of small retailers may accomplish the same result. Selling in tremendous quantities to a chain store company is somewhat analogous to dumping goods in foreign countries at low prices. Again, the ability of a concern to undersell another may arise from the indirect subsidy

which it enjoys. This applies generally to the ability of motor trucks and buses to make inroads upon the traffic of the railway. Their alleged efficiency is superficial. Compel them to pay their own way as the railway does before deciding upon the relative efficiency of these two agencies. The sole test of efficiency should be the ability to perform the marketing functions with the least expenditure of the factors of production. Specialization as a means of increasing efficiency requires no elaboration. Let the manufacturer, merchant, and others busy themselves in their respective fields. Merchandising and relevant fields of activity might be subdivided in certain instances even more than at present for the sake of specialization; for example, stores devoted to perishable products only. Moreover, arrangements such as the Bush facilities in New York City, could relieve manufacturers to a greater extent of the problem of selling goods. The duplication and overlapping of human and physical factors should be avoided. Most of the goods which manufacturers sell directly to retailers or consumers could be disposed of in the orthodox manner with a smaller outlay of the factors of production. If economical facilities already exist for the marketing of a class of products, as hosiery, it is socially wasteful for a manufacturer to resort to another method. It means less specialization and the un-

necessary duplication of marketing facilities. Simplification of the marketing functions would encourage specialization and discourage duplication. Sales on the basis of grades and prices would foster a specialized and regular system. Any betterment of the present system by which goods pass from the producer to the consumer must take into account storage, transportation, and the other marketing functions. Further, the government should provide the opportunity to effect improvements on the basis of social efficiency. Lastly, the education of the consumer will enable him to resist the appeals of salesmen and advertising. He should exercise his initiative and judgment as a buyer and no longer be the victim of the seller. Grades and prices rather than psychological appeals should be the determining factors. In brief, the arousal of an intelligent and virile opinion among the people is essential to the emphasis of price rather than alleged quality and service—in other words, to the realization of substantial economies in marketing.

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